SUBCOMMITTEE HEARING ON HOW SMALL BUSINESSES CAN BEST ADDRESS THE HEALTHCARE NEEDS OF THEIR EMPLOYEES

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Thursday, August 30, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL & URBAN ENTREPRENEURSHIP
Asheville, North Carolina.

The Subcommittee met, pursuant to call, at 2:05 p.m., in the Auditorium, Asheville Chamber of Commerce, 36 Montford Avenue, Asheville, North Carolina, Hon. Heath Shuler [Chairman of the Subcommittee], presiding.

Present: Representatives Shuler and Davis.

OPENING STATEMENT OF MR. SHULER

Chairman SHULER. The hearing is called to order.

I would first like to welcome everyone to this hearing. What an important issue that we are facing. Our small businesses continue to be faced with an outstanding climb in our healthcare industry, being able to provide adequate health insurance at an affordable rate to the employees or the employer providing that service for them.

I would like to welcome everyone to Asheville and I would certainly like to welcome my colleague and one of my very good friends in the House, Congressman David Davis from the First District of Tennessee, which encompasses Johnson City, Kingsport, all the way down to Sevierville.

Mr. DAVIS. That is correct.

Chairman SHULER. To give you a little bit of history on our Committee that we feel very proud about. There are not a lot of committees in the House that you can say is actually ran as well as the Small Business Committee is, truly bipartisan support on both sides. Chairwoman Velázquez has done an outstanding job of actually getting bills to the House. And it could not have happened if it was not for the support of ranking member Chabot and what he has been able to put together on the minority side in a working relationship. So we want to extend that welcome relationship that both Congressman Davis and I have to the mountains of western North Carolina.

Today's hearing will focus on the rising cost of healthcare and how it affects small businesses. The increased cost and the lack of availability of healthcare insurance is a problem that continues to

plague the nation's small businesses. Over the last seven years, entrepreneurs have seen premiums rise at nearly 80 percent.

This is an issue that affects small firms across the country, but particularly important here in western North Carolina. Employer-sponsored insurance is a primary source of healthcare coverage for 68 percent of North Carolina's working families. However, due to the rising costs, that number has steadily declined over the past few years as businesses find it more difficult to find affordable insurance coverage. Today, over half of all uninsured workers in this state are employed by businesses with fewer than 25 employees. North Carolina's small business has consistently identified high premium costs as the primary reason many are unable to offer health coverages.

It is clear that there is a need to do something and it has to be addressed immediately when we talk about our economy in Washington and addressing the rising healthcare costs must be at the top of the list.

One of my goals as Chairman of this Subcommittee is to ensure that healthcare reform considers the impact of small businesses. Already this Congress has passed several important legislation to assist small businesses to provide healthcare as well as to provide access to that care.

Recently, the Committee passed the Affordable Healthcare Initiative. This grant program would allow small business development centers to assist owners in identifying affordable health insurance options for their employees.

Our Committee also reported legislation that will help small healthcare providers service the small business owners and their families. We passed a Small Business Administration lending bill that makes low-cost loans available for healthcare providers who service low income and under-served areas. This will provide much needed financing to the providers serving many of the employees of small businesses.

But this is only a start. The Committee has held numerous hearings to identify new ideas and programs for the coverage of the uninsured and the increase of access to all Americans.

A number of committees will be looking at the problems of healthcare coverage in the 110th Congress. This Committee's focus is to make sure that small businesses are part of the debate.

Today's panel offers a diverse perspective on challenges facing healthcare systems. I look forward to hearing your testimony of small business owners, healthcare providers and insurance brokers. Small business would not be in our district if we look around at what has happened to the diversity of specifically western North Carolina where we have seen so many plants have gone, so many of our jobs have truly moved abroad, and it is our small businesses, our small business owners that is really the backbone behind our country. I think we all believe in Congress that our small businesses are going to be the key to our future. And it will be these 10, 5, 20, 25 employee businesses that really change the dynamics of what our country is all about.

At this time, I would like to introduce one of my very good friends in the House, Congressman David Davis from the First District of Tennessee. Congressman Davis.

OPENING STATEMENT OF MR. DAVIS

Mr. DAVIS. Thank you, Heath. Good afternoon and thank you all for being here as we examine healthcare choices for America's small businesses, their employees and working families.

Before we begin, I would like to sincerely thank my good friend, Congressman Heath Shuler, for inviting me to come over the mountains into your beautiful district. We may come from different states, be members of different parties, but only one of us can throw a 12 yard out pattern on the road.

[Laughter.]

Mr. DAVIS. And you can guess which one it is. As long as the sun rises over the Blue Ridge mountains in my home in Tennessee and sets over them in Mr. Shuler's district here in North Carolina, I know that we have at least one thing in common—the desire to help small business owners find reliable, high-quality and reasonably-priced healthcare that will be available when they need it.

I have been involved with healthcare for almost 30 years, I am a respiratory therapist by training myself and have owned several healthcare businesses. I have been a small business owner now for about 15 years. I really see myself as an entrepreneur. So I have seen this issue from both sides.

At the center of our examination are the issues of cost and access. As we all know, purchasing health insurance is one of small businesses' most costly expenses. According to the National Federation of Small Business, NFIB, healthcare is the most severe problem for small business owners, greater than taxes, cash flow or government regulations—which is hard to believe. Small groups, including small businesses usually pay more for similar or less coverage than large businesses. As a result, small businesses are less likely to offer health insurance than large firms. Not surprisingly, the principal reason given is that small businesses could not afford the coverage.

One of the most distressing statistics that we see each year is the rising number of Americans who live without health insurance, currently estimated at roughly 46 million people. Of those without health insurance, about 60 percent are small business owners or employees of small businesses and their families.

As healthcare costs continue to rise, fewer employers and working families will be able to afford the coverage. Clearly, we in Congress must look at this pressing problem and find solutions that will create an environment so those in need for healthcare insurance can not only find the coverage they need, but also afford the coverage that they need. We need to be working towards a healthcare delivery system that works best, not just what we have always done in the past. A simply look at the current healthcare landscape shows the system is not working.

Over the past several years, Congress has debated numerous proposals designed to bring the cost of healthcare down, including the establishment of associated health plans, also known as AHPs; increasing the availability, use and ease of health savings accounts, also known as HSAs; and reforming the medical liability system. And as you may recall, in President Bush's most recent State of the Union, he talked about allowing employers and those that are employed, to actually take some of their pre-tax dollars and purchase

health insurance, to have a system so that thereby they can afford the health insurance that they need. Unfortunately, some of the things I just mentioned in these proposals, which I believe could provide significant relief for the problems that we face, were never signed into law, they are still on the books.

As we all know, there is not one solution to a problem as complicated and complex as 46 million Americans living and working without health insurance. Small business employers and employees are in critical need of new ways to increase health insurance coverage.

I look forward to hearing from our witnesses and to working with you, Mr. Shuler, on finding ways to make healthcare more affordable for small businesses and their employees.

Again, thank you for inviting me to be here with you and your constituents, and I yield back the balance of my time.

Chairman SHULER. I thank the gentleman from Tennessee.

I ask unanimous consent that the record be open for five days for members to submit their statements. Hearing no objection, so ordered.

I would like to now call the first panel which consists of small business owners as well as a member of the Chamber of Commerce healthcare roundtable.

Our first witness is Jerry Johnson, the owner of The Laurel of Asheville Magazine, a local monthly lifestyle publication.

Mr. Johnson, you have five minutes for your testimony.

STATEMENT OF JERRY JOHNSON, OWNER, THE LAUREL OF ASHEVILLE

Mr. JOHNSON. Thank you, Mr. Chairman. Like you said, my name is Jerry Johnson, and with my partner Bob Brown, we own The Laurel of Asheville Magazine. I have been an owner of various small businesses for nearly 25 years and all of those businesses have had less than 10 employees.

There has always been a constant need to search for or shop for health insurance. That is because prices have always been going up and the amount of coverage has always been going down. My overall view is that there has been a dramatic change in the health insurance marketplace over the last 25 years. In the early 1980s, there were numerous companies offering a wide variety of coverage from major medical to hospitalization. In those early years, I learned to shop for a better price about every two years because the rates were increased. There were numerous agents available then that provided policies and educated you as to the new choices and different coverages. In the past decade, the choices in the once abundant health insurance marketplace has gone away. Ten years ago, there were probably 40 or 50 companies offering some variety of health insurance in North Carolina. Today, I believe there are less than 10 and even those choices are limited because some of these companies are really offering indemnity policies, which means they pay cash per incident and are not true hospitalization or major medical coverage.

Today, there are more people needing and looking for coverage. The high cost of medical care can ruin a family's future or prevent someone from truly becoming well. Yet today, far fewer agents are

offering health insurance policies and fewer companies are supplying policies. As a small business person, this does not make sense. When I know there are more people wanting to buy something, it usually means that more businesses will enter the marketplace to meet the demand. This is definitely not true with health insurance.

As a small business person, I believe that more competition is needed in the marketplace. Competition in any industry I can think of has brought about creativity and innovation, whether that means in the delivery of the service, the coverage or the pricing. I also believe that the government can aid in this expanding of the marketplace. For one, the government could become more of a reinsurer of catastrophic coverage, making it available on a sliding income scale to those insurance companies willing to innovate and offer policies to children and families that are most at risk, companies that are also willing to help with wellness and non-traditional forms of healthcare. Keeping people healthy and not just paying for their sickness is what insurance companies could be doing differently. Secondly, and what would save small business people a lot of time and effort and money would be to make easier access to the types and varieties of insurance coverage available. With fewer agents in the field and fewer companies, it would be really helpful to aggregate their services to a web site or a clearinghouse and then use standard terms that could be used and explained. Comparison and maybe some costing, so we could project ahead what it would cost for various size groups to have heath insurance.

In conclusion, I know that we as a country can do a much better job of keeping our workforce, our families and our children healthy. We need to shakeup the insurance industry and have them start thinking of better ways to market and deliver their product and less thinking about their shares on the stock market.

I thank you for your time, Mr. Chairman, Mr. Davis.

Chairman SHULER. Thank you, Mr. Johnson, for your testimony.

Our next witness is Bob Kendrick, the owner of Kendrick & Associates, an independent business consultant in Weaverville.

[The prepared statement of Mr. Johnson may be found on page 40 of the Appendix.]

STATEMENT OF BOB KENDRICK, OWNER OF KENDRICK & ASSOCIATES

Mr. KENDRICK. Thank you, Mr. Chairman.. Mr. Davis, glad to be here. I do appreciate the opportunity to give testimony, even though I am certainly not a healthcare professional or particularly a strong student of the healthcare issues.

But I do have an opportunity to work with a number of small businesses throughout our region who are either trying to establish themselves or are in the position where they are trying to expand and grow. I have a second relationship with these folks because I run a local certified development corporation, SBA 504, which you are keenly aware of on the Small Business Committee, and fortunately we were selected by the Administrator Preston as one of the top two in the country this year. We do appreciate the recognition.

What I have discovered in 25 years of working with a variety of small businesses is that we really have two sectors of small business that serve all our communities. We have what used to be known as the mom and pop business and now are more appropriately considered lifestyle business, where you have the individuals, be it family or non-related, who are trying to establish and run a business to support the cost of their lifestyle. They are not particularly high growth oriented, they tend to serve local markets—it is the neighborhood store or it is a particular niche where they have found a market where they can fulfill. And one of the growth factors that is going on in western North Carolina is these lifestyle businesses are attracted to our market because of lifestyle issues. And whether it be Tennessee, North Carolina, et cetera. These small businesses—and it is really the tiny business administration who serves those needs, as you said, tend to be fewer than ten employees, most often fewer than five.

The second businesses we have are what are considered gazelles, to where maybe a core group of professionals with various talents come together and establish a business. They are more clearly focused on more of a growth opportunity. They are anticipating to expand and grow their business over a reasonable time frame. I think Laurey fits that category very well.

Both of these businesses, regardless of their orientation, have the same problems when it comes to healthcare as a component of the management of running your business. I recognize what Mr. Davis said, that healthcare is a significant issue for small business. But it is only one of many—sales, market penetration, cost containment as business owners where the cost of health insurance and whether you can provide it to your employees or not just becomes one component of the management decision.

I think we also need to recognize, as do you, Mr. Davis, that most of our medical practitioners are small business owners in a medical specialty, and they have the same needs and demands as the rest of us. They are trying to manage cash flow issues, they are trying to find time to take a vacation, they are trying to find time to spend with their family and friends.

All of the activities that were mentioned by Jerry, as far as what is happening to the healthcare industry, all run down through these same business opportunities. My dentist is on cash, he cannot afford the cash flow to get into filing insurance. Many of the doctors that I talk to—and we have a wide variety of medical practitioners in western North Carolina who are attracted here for lifestyle as well as market opportunity—are facing these exact same issues. Whether it is regulation as it relates to reimbursement plans, the adversarial relationship between the small practitioner and the healthcare insurance industry, it is all the same. We are just not solving the problems.

I think our other small businesses, where healthcare is a component are seeing a continual degradation of what they are allowed to do for their employees. They have to compete in the marketplace. If they are offering health insurance at a fairly high premium to their employees and their competitors in the marketplace are not, then that business is perhaps at a distinct disadvantage to capture new sales and profitability to the bottom line.

I know in my circumstance—and my business does not offer health insurance—I leave it to people that affiliate with me. I try and give them sufficient revenues to where they can go out and purchase their own independent. That is what I do.

Your comment—when I agreed to serve, I went back and looked at my own Quickbooks and between health insurance expense and out-of-pockets, I have spent $16,000 since January 1 on healthcare. I have been healthy, I have not been in the hospital. And that is the reality of what we are facing and that is the dilemma.

I recognize there are about 122,000 working people in Buncombe County. These are the folks of which 22,000 have no health insurance, we need to serve.

I look forward to addressing your questions. I appreciate the opportunity to be with you and I think there are some other aspects of small business that need to be addressed, as it relates to healthcare. Thank you, very much.

Chairman SHULER. Mr. Kendrick, thank you for your testimony.

At this time, I would like to introduce our next witness, Laurey Masterton, the owner of Laurey's Catering and Gourmet to Go of Asheville. Laurey, thank you for your time and your commitment to your business. And you will have five minutes to present your testimony.

[The prepared statement of Mr. Kendrick may be found in page 42 of the Appendix.]

STATEMENT OF LAUREY MASTERTON, OWNER OF LAUREY'S CATERING

Ms. MASTERTON. Thank you, Mr. Chairman, Mr. Davis. Thanks for asking me to speak about my business and health insurance.

I have been living and working in Asheville, running my catering company since 1987. I started catering out of a second floor walk-up apartment, working alone, doing all the planning, shopping, cooking, serving and cleaning up. All by myself.

After three years, I was caught—fortunately—by the Health Department and made the decision to get a real kitchen that was approved and fully legal. And at that point, I started to have employees too, first one and then more and more as needed, of course. And my business grew as did my overhead.

But let me back up just a little bit. When I was 25, I found out that I had uterine cancer. I did not have any insurance. At that time, I was an hourly employee working in the theatrical lighting business in New York City. But I needed and had major surgery. Fortunately, I had a mentor whose partner was an OB-GYN and she did not charge me for doing the surgery. I did, however, have a stint in the emergency room and a few days in the hospital, two different hospitals. In New York, at that time, maybe still, there was a fund called the Hill-Burton Fund, that covered people who did not have any money to pay for these sorts of things. I did not have full time employment and so I was covered by that fund. I did have to pay the emergency room though, and it took me a long time, paying $100 a month, to pay off the thousands of dollars of debt that I racked up in those few days.

When I was 34, I had cancer again, ovarian this time, and fortunately at that point, I did have coverage. All of those bills were paid, as were the necessary follow-up treatments that were needed.

Realizing that health insurance is essential, I have offered it to full time staff since the very beginning of my business, as soon as I had full time staff. This has made me have much more overhead than my competitors, as Bob referred to, and has also meant that I am more expensive than my competitors. This is a problem, but it is also something that I am committed to doing, and hopefully my clients will understand that being a good, responsible employer means that it can translate into higher costs but that taking care of one's staff is an admirable thing to do.

Unfortunately, this understanding is not always present. I do not really feel comfortable saying "Well, yes, but they pay under the table and they do not offer any benefits and they do not have any insurance and...."—that gets whiney and I try to take the higher road, trying to know that I am doing the right thing.

I do pay all my taxes, I do follow all the rules, which can often mean higher costs to me. And I do still offer all my full time employees full health insurance.

I used to pay 100 percent. A few years ago, however, when the costs just kept rising and rising, I had to call a stop to that. We have capped our payment per month, per employee now, and deduct the remainder from our employees' checks. I really wish I did not have to do this, but it was really getting completely out of control.

Let me give you a sense of the costs.

I have about 20 to 40 employees, about ten of these are full time, qualifying for full health insurance. I pay about four or more thousand dollars a month, about four or more percent of my sales, each month to Blue Cross and another smaller amount to the dental insurer. This is a significant amount of money for me. Imagine what I could do with an extra $48,000 a year. Imagine what some of my competitors do. Imagine how they can afford to charge less.

As I was writing this, a some-time employee of mine came in to pick up a paycheck. He has just started a catering company in another neighboring town. He is working out of somebody else's kitchen and at this point, he does not have any staff except for himself and his wife. He was smiling and spoke excitedly about how well he is doing. "The profit is amazing," he said. Right, I thought, having just finished looking at my current list of accounts payable. No overhead—he has no overhead, lots of profit. Oh, well. I run a profitable business but it is much harder to do with the huge amount of money I pay to health insurance and the other pieces of overhead that I have.

At the same time, I feel safe, knowing that I have insurance and that some of my staff have it too. It makes a huge difference to them. We have had employees with injuries—not from working, just on their own, playing soccer and horsing around, and they have been covered. We have had folks who now get regular medical and dental checkups and I know that they were not able to do that before working for me. I know I am doing the right thing. And it is expensive.

It seems tragic to me that we cannot find a cheaper way to take care of things. I am glad to know that you are asking for opinions and experiences and I really do hope that you can find a way to get more people insured and for people like me to be able to run a responsible, profitable and truly competitive business. Everyone should be able to have insurance and an employer should be able to offer it without breaking the bank.

Thank you very much.

Chairman SHULER. Thank you.

At this time, I would like to introduce Caroline Coward, an attorney at Van Winkle law firm here in Asheville. Caroline also sits on the Asheville Area Chamber of Commerce Healthcare Roundtable.

[The prepared statement of Ms. Masterton may be found on page 45 of the Appendix.]

STATEMENT OF CAROLINE COWARD, ATTORNEY, VAN WINKLE LAW FIRM

Ms. COWARD. First, I would like to take this opportunity to get on the record that I am originally from Robbinsville and until Mr. Chairman came along, that we were able to beat Bryson City occasionally.

[Laughter.]

Ms. COWARD. Having said that—

Chairman SHULER. Can we strike that from the record?

[Laughter.]

Ms. COWARD. —I am an attorney and a partner with Van Winkle law firm with offices in Hendersonville and Asheville. We have 104 employees, 38 attorneys and 66 support staff. Our firm has reacted specifically to the rising cost of healthcare in two ways that I will address.

First, we have reacted by implementing a new healthcare plan. In 2005, we were consistently seeing annual double-digit percentage increases in our healthcare costs. By implementing the new plan, our goal was, and is, to cause the participant to be a better consumer and understand the true cost of healthcare. We still have a traditional plan that has a lower deductible and co-pays. We have steadily decreased the benefits of that plan and will phase it out completely by 2009.

Our new options are high deductible plans and healthcare savings accounts. The firm makes contributions to HSAs for employees participating and reduces or eliminates the payroll premium contribution. The plan pays $500 per person for wellness visits, except for vision and dental. By basically shifting more risk to the employee, the plans will theoretically attract employees who tend to be healthier. The risk that we are taking is whether we will get enough employees who are also willing to take the risk of these plans.

Secondly, we have reacted—our firm—by making an effort to understand why the cost of healthcare is rising and if there are issues particular to our region. We have participated for the past four years on the Buncombe Chamber of Commerce Healthcare Roundtable, which consists of employers and providers. The roundtable

has focused on issues related to the rising cost of healthcare for our region and strategies to address the underlying causes.

One factor identified by the roundtable is the fact that our region has a high percentage of Medicare patients, but because of the methodology for determining the rates Medicare will pay, our providers are paid less than providers in a town close, Greenville, South Carolina, which is about an hour and a half from us. For instance, statistics from the roundtable indicate that Mission Hospital was paid 87 percent of its cost for Medicare and Medicaid patients in 2006, resulting in over $42 million in costs shifted to other payers. This cost differential is not due to inefficient use of resources. The total per Medicare enrollee for hospitalization in western North Carolina is at the 24th percentile nationally, 50 percentile is the average. Ultimately, these costs are shifted to insurers and businesses which result in increased healthcare premiums. The roundtable has found that employers and employees are increasingly dropping coverage, resulting in a growing amount of bad debt and charity care expenses for physicians and hospitals. This cycle impacts us as an employer by causing our costs to rise in order to subsidize the under or uninsured. It is estimated that nearly 22 percent of Buncombe County residents between the ages of 19 and 64 do not have health insurance. Over half of the uninsured are employed.

The roundtable has focused on four strategies to address this issue:

One is to advocate the appropriate payment for Medicare and Medicaid. Basically, Medicare reimbursement is based in part on a wage index of certain established regions throughout the country. Asheville is located in a region that has a lower wage index than Greenville, South Carolina. However, Asheville must compete with Greenville for resources such as nurses and other healthcare providers. As stated above, Greenville has a higher Medicare reimbursement than Asheville, although the cost to provide services is as much or more in Asheville than it is in Greenville.

Second, the Chamber is promoting community-wide initiatives in the area of prevention, cessation of smoking, increased physical activity and reduction of obesity by promoting community resources. The objectives are to conduct a widespread community-based health promotion publicity campaign to inform and reinforce our identity as a Health Community as defined by the CDC.

It is also to support a single point of entry for information and access to existing resources, making health promotion available to residents of Buncombe County.

Third is to encourage the development of alternative insurance products for small businesses. The roundtable is presently reviewing whether employers in the area would be interested in developing a model established in Missouri where laws were amended to allow small and large employers to combine and create a large risk pool.

The fourth is to advocate for medical liability reform. Defensive medicine, over-utilization of technology, continues to cause the rise in healthcare.

In closing, as an employer, a member of the roundtable and a citizen of western North Carolina, I ask for active support from our

federal legislators. These issues are hindering economic development and the achievement of improved health status of our community.

Thank you.

[The prepared statement of Ms. Coward may be found on page 47 of the Appendix.]

Chairman SHULER. Thank you. And thank all of the panel for your testimony.

Ms. Coward, I think your point is exactly well taken, especially when we are talking about the cooperatives pooling different businesses and groups together. What do you think the biggest obstacle has been in some of these districts of retaining small businesses and actually getting them involved in the pool groups, the cooperative groups, to be able to sustain—what are some of the obstacles we can overcome from our side that we can set forth the initiatives that employers are able to be actively involved in these pool groups to be able to lessen the cost?

Ms. COWARD. I mean, I would think the concern would be whether or not the larger employers are going to even want to set up these groups, because if a larger employer is able to attract a wider range of patients—of patients, I am sorry—of employees and that range includes healthier employees, whether or not they are going to be accepting of smaller employers who maybe do not have as healthy a work force. I see that as maybe the first obstacle, is basically convincing the large employers to be willing to bring on the smaller employers. I am not sure that it is going to flip the other way. And Laurey may have an opinion.

Chairman SHULER. If you look at being able to pool—Ms. Masterton, have you been able to put some of your resources together to see if you could pool some of your different colleagues together under a specific pool to be able to lower your healthcare costs?

Ms. MASTERTON. I am a member of Asheville Independent Restaurant Association and I know that is something that they are looking at. Frankly, I am trying to run my business and I have not really had time to look into it. You know, I know that in other places, at the chambers of commerce, you can be a part of the chamber health insurance plan, and I guess we are not allowed to do that in North Carolina.

Chairman SHULER. That is right, North Carolina is excluded.

Ms. MASTERTON. I would love to be in a group, a big group or a little group or a group of my colleagues, you know. I like groups.

[Laughter.]

Chairman SHULER. You would like to be in any group.

Ms. MASTERTON. I would just like to have the security of insurance and there is safety in numbers, yeah.

Chairman SHULER. Mr. Kendrick, how do you feel about being able to pool, if we could pool in this state, to be able to pool some of our resources together to be able to lower the cost?

Mr. KENDRICK. I think it is a worthy goal. And I think that a reasonable segment of the small business community would look to that. I think business owners want to serve the needs of their employees because that is retention, that controls turnover and people

care about the people they work with. But it will not be universal. Again, my point being, if nobody in my industry insures anybody, then I do not have a motivator to get me to that table.

Chairman SHULER. Absolutely. How have you seen retention, not being able to provide health insurance for your employees? How have you looked at that retention?

Mr. KENDRICK. If you look at the family circumstance, there are many, many, many people in our community that one spouse works at a job with benefits and retains that job because they can get benefits, which frees up the second significant other to perhaps look at other opportunities where health insurance or other benefits are not available. I think it is key for retention, and I think Laurey would probably find that the case with her business.

Ms. MASTERTON. It is true and probably every single week somebody on my staff comes and says this is the greatest place to work and thank you so much for providing insurance. It is hugely important to them.

Chairman SHULER. So often I think now in small businesses we are seeing, maybe not so much the salaries, but the benefits that they ask about first, because of the healthcare costs, it is such an important part.

Mr. Kendrick, I mean, you just spent what, $16,000 already personally?

Mr. KENDRICK. Two thousand a month, it is two lives, you know, we are talking about.

Chairman SHULER. Absolutely. I have had some folks that have worked for me and it has been amazing to actually see the actual cost. I actually got my health insurance license, a life and health license, once upon a time. And to really be able, from a small business owner, be able to see how it actually impacts us, and I found out pretty quickly that—my in-laws are in the insurance business, independent insurance company and it is not like you can make money off just a couple of people. I mean you have to have lots and lots. And I am sure we will hear from our panel, our second panel, but you have to have a lot because there is not a lot of money actually being made on the brokerage side of it. It is a very, very small percentage that is actually making money.

Mr. Johnson, how often would you say that you—at the end of each year, you revisit your health insurance?

Mr. JOHNSON. It is an annual—I mean you cannot step away from it. What I do, because group policies for less than ten employees are not available, you know, we do an allowance for our employees and, you know, we spend a thousand a month in insurance, you know, just to give them money that they can use to purchase their own health insurance.

Chairman SHULER. So you have really gotten to the point that because you know that the cost is so high, that you do not even bother the broker of insurance.

Mr. JOHNSON. Well, I ask the broker and the broker says, you know, you are better off with an individual policy because a group policy is going to cost you 20 percent more.

Chairman SHULER. Do they look at that money that they are receiving, extra money to be able to provide their own coverage, do they look at that as salary or do they look at that as benefits?

Mr. JOHNSON. I really do not get the compliments that Laurey does.

[Laughter.]

Mr. JOHNSON. Because it is not really—I am not really telling them what it is for, it just gets attached once a month and says here is the allotment for, you know, each one of you.

Chairman SHULER. How many of them would you say actually gets coverage?

Mr. JOHNSON. All of them.

Chairman SHULER. All of them.

Mr. JOHNSON. Yeah, and we discussed it. They actually do get some kind of coverage. Sometimes they will come back and say what do you think is the best buy, something like that. They want some consultation. And that is hard to get for individual policies because there are, like I said, fewer agents out there offering it you know, and so people want to share information to find out what other people are buying, what is good coverage.

Chairman SHULER. Ms. Masterton, how do you feel—how often do you research your health insurance costs?

Ms. MASTERTON. There is little choice and I have that from a person who comes in and says well, we can switch to United Healthcare this year or we can switch to Blue Cross this year, so we sort of switch back and forth and it drives me crazy.

You know, I have looked into giving people money and asking them to get their own insurance, but I have two women who are in their forties and then there is me who throws the whole thing off because I have such a checkered medical past. And then I have young men who are $80 a month, and then I am, who knows how much I am. You know, it would be ridiculously expensive. And so we balance each other out, the old gals and the young guys and—

[Laughter.]

Ms. MASTERTON. It is true, so yeah, it is just my cost of doing business.

Chairman SHULER. It is amazing now, as you look at so many people, if you are switching coverage, how many times they say that you are not covered or we are not going to cover that particular case.

Ms. MASTERTON. That is right. I am totally a pre-existing condition, I am a walking, living, breathing—you know, it is hard.

Chairman SHULER. Have any of you—and this is open to the entire panel—have you looked at maybe some just catastrophic coverages? I mean, Mr. Kendrick—

Mr. KENDRICK. That is what I carry.

Chairman SHULER. That is basically what you carry.

Mr. KENDRICK. There is no dental, there is no vision, it is major medical with a high deductible. And in December when I turn 59, it will go up. I mean, that is the way it works.

I would like to make one comment while it is open. There is a hidden cost in this. Your opening remarks were about the future of our economy as small business. And as someone who is a lender, do you realize how many credit reports I see on entrepreneurs who cannot get financing because under an otherwise unblemished credit history, they have medical collections because a child was ill five years ago and it decimates them on trying to get business loans or

even personal credit costs. And that is a whole hidden cost. They are not smart enough to do what Laurey did and get on a $100 a month payment plan as to not destroy their credit.

Chairman SHULER. Ms. Coward, how do you feel—the medical savings plan, how has it been adopted in our area and how many people are participating, would you feel, in a health savings plan?

Ms. COWARD. Well, again, I think that—I do not know in the whole area, I just know with our firm, we are working into it and it was not an easy sell because the employees are taking a lot more risk with the high deductible, but it does—so ultimately, again, I believe we will end up perhaps with a healthier workforce, but we also may end up with no workforce, depending on whether or not we are going to have employees that are willing to take the risk of a higher deductible.

Chairman SHULER. Absolutely. At this time, I would like to recognize the gentleman from Tennessee, Mr. Davis.

Mr. DAVIS. Thank you, panel, you have done a wonderful job explaining the situations you deal with every day. As a small business owner, I still deal with them, even now, I still own a small business and still see those rates go up in the teens every year.

I can tell you, Ms. Masterton, coming from my background, I know that I could not go out and have a workforce that is willing to come to work without health insurance. And it sounds like you understand, you pay $48,000 more than your competitor does, but do you feel like you are probably getting a better type of employee, hopefully giving you a competitive advantage, because you are willing to do a little more than some of your competitors?

Ms. MASTERTON. Yes, I do. And I think—I have people who have been with me for ten years and the two older women who I referred to, one has been with me ten years, one has been with me for nine years. And you do not see that—restaurants are heavily—there is a lot of turnover. And relative to the industry, I do not have turnover, and I think that it is because of that. And I think there are a substantial number of my clients who do recognize that and appreciate it and hopefully understand that I am running a responsible business. So yeah.

Mr. DAVIS. Thank you.

Ms. Coward, coming from a legal profession, it is interesting for me to hear you talk about medical liability reform. Can you expand on that a little bit and tell me where you see, as an attorney, where some of the problems were at and how you have some of those hidden costs in healthcare?

Ms. COWARD. Well, I mean, I think that where I sit, we are a defense firm, so we represent the provider side, we are not the plaintiff side. With that said, what we do see is more and more physicians are using defensive medicine, where they will prescribe a lot more procedures, a lot more tests, to cover their rear end—

[Laughter.]

Ms. COWARD. —whenever they are looking at a patient, particularly emergency room situations. And that ultimately leads to, not only the cost is high whenever there is a lawsuit with large damages found, without a cap to that, but then on the other side, you are seeing daily over-use of diagnostic testing because of physi-

cians' concern about the possibility of a medical malpractice lawsuit against them.

Mr. DAVIS. Thank you.

Mr. Johnson, you talked about the need for additional competition. Can you talk to us a little bit about where you see that competition being built in? Do you feel like that needs to be mandated by the federal or state government or do you feel like that something needs to be done in the private sector? And how do you see that working?

Mr. JOHNSON. Well, I mean, if I go back to where it was 25 years ago, there were a lot of small insurance companies. Now, there has been a lot of consolidation in the insurance industry and less of them taking risks, you know. But if we do not have competition, you are not going to have innovation. I mean, they are only going to provide what they have to provide. You can go now and some of the insurance companies do not tell you that they provide health wellness, you know, physicals every year, certain tests every year to an age group, et cetera. But, you know, that should be something that everybody does and yet some of them do not want you to really know that. It is couched in the terms and everything.

So I think that more wellness-oriented companies are out there, I think, if the catastrophic were somehow handled. It is the catastrophic I see—that is what people are worried about, employees, everything else. It is not about—they can figure out how to pay for the office visits, they can figure out how to pay for the small tests. You know, yeah, they have gotten used to some of that, but they know in the overall picture, that is not what is going to hurt them, it is the catastrophic. And a lot of people cannot buy catastrophic insurance.

So if they are going to have more competition in the marketplace, somebody has got to be the reinsurer or the backbone that will provide the catastrophic. And then I think you would see more small insurance companies or people starting insurance companies that might want to get in there and provide a wider variety of services, knowing that the catastrophic is kind of covered.

Mr. DAVIS. How do we go about encouraging that, as a Congress?

Mr. JOHNSON. Well, looking at how catastrophic affects the bankruptcy rate, looking at how catastrophic affects small families, how it hesitates people from risking going into small business at all. You know, now that we do not have a decent bankruptcy law and now that we do not have—I mean if somebody gets sick and they have a multi-hundred thousand dollar bill at the hospital, they know they cannot go out and start a small business. They are totally limited, there is no backdoor, you know. I think that Congress has got to figure out a way to work with insurers to provide catastrophic insurance for a segment of the market, whether it is—you know, the one I hear about all the time is—I hire a lot of older employees and they are worried about, you know, retiring at age 60 and not getting to Medicaid. You know, that group there has got health problems just because of their age. The actuarial tables will tell you that you are going to get problems when you get above the age of 59.

Mr. KENDRICK. Not all of us.

Mr. JOHNSON. But I mean that is something that is there, but there is no one coming forward and saying well, we will make sure that you are not going to be without a home, without a future, without the ability to, you know, buy groceries, because you have had a catastrophic illness. And that is not fair.

So I think Congress has to look at how they can somehow supply or help reinsurers or insurance companies in general be there for the catastrophic so it does not fall down on the little guy, who is a small business owner or has the potential to be a small business owner.

Mr. DAVIS. I mentioned three different things in my opening statement. I mentioned associated health plans, Mr. Shuler is calling them pools. The four of you, are you supportive of associated health plans?

Mr. KENDRICK. I think associated health plans add to that sense of competition. If the association could be formed and you could get sufficient lives in it to where we are not just making application to an insurer, but now we are out there and seeing if they want to bid to buy that association's group plan. I mean that is one way you address competition. If there are 10,000 people in an association group and you say who wants to insure this group, you are setting an opportunity for competition. So yes, I agree that it is a solution.

Ms. MASTERTON. I agree also, yes. I think whatever we can do to get more people insured, able to insure their employees, then the better off we will be. And yes, it has to be affordable.

Ms. COWARD. And I guess I look at some possible incentive for the large employers to want to participate, because I think they may be key, and it would be good to have a champion to take this on, and there may be some out there.

Mr. DAVIS. I know you are supportive of HSAs, health savings accounts.

Ms. COWARD. Yes.

Mr. DAVIS. Are the rest of you?

Mr. KENDRICK. I have looked at it, but it is a lack of knowledge and it is just one management job that the owner of the business has to perform. There are many other management jobs. We cannot learn to be our own healthcare professional. I mean the question, when do you look at your health insurance—well, when I get the notice of increase, I call and I say what are my options. And I want a professional who understands the plan to give me an opinion, well, you could do self-insurance, you can go to a pool, you can do this or this or this. And then you make the management call. Okay, raise deductible, drop dental, whatever it is you need to do.

Mr. DAVIS. And another thing that I mentioned was President Bush mentioned in his last State of the Union, being able to use tax dollars. Instead of sending it to the federal government, actually allowing the business owner or the employee that is self-employed or an employee that works for a small business and does not have insurance, use your tax dollars to actually go out and purchase heath insurance, rather than sending that money to Washington. Does that sound like a solution?

Ms. MASTERTON. That involves a lot of responsibility on the part of the employee and I think that for the folks that work for me,

I think that—you know, I worry that they would not take the time to do the exploring. You know, for the man, it would be fine, and the women, it would not be fine. And it is just not equal and it would be difficult. The women would not do it, I think, I fear.

Mr. DAVIS. And back to something Mr. Johnson said somewhat. You give a lump sum of money and you hope and probably intend for that money to be used to buy health insurance.

Mr. JOHNSON. Uh-huh.

Mr. DAVIS. I will tell you, the vision I get of healthcare in America. We understand when we go to a supermarket that the odds are when you go through and you fill up your grocery cart and you go through the checkout line and you have $150 worth of groceries, most people intend that when you get there, you are going to have to pay for it. Or you stop at a gas pump and you put gas in your car, you probably are going to have to pay for it. Or if you have someone come in and do some electrical work, when they finish, you assume that you are probably going to have to pay for it.

Healthcare is one of those things in America where over the last 40 years, we have come to a situation where you go receive your healthcare and then somebody else is responsible for writing the check. And as long as we have Americans and employees not willing to take an active role in their healthcare because somebody else, in their mind, is paying for it—we are all paying for it. He is paying for it, I am paying for it, the panel is paying for it, business owners are paying for it. Ultimately, your employees and customers are paying for it, because that cost gets spread.

Until we can have Americans, in my opinion, understand that they need to take an active role in their healthcare, in wellness issues, the purchase of the right type of insurance and understand that defensive medicine drives up cost—all those things go in to the pricing of healthcare. Until we have Americans willing to take a stand and say look, I am going to start looking at my invoice that I get from a provider, I am going to start looking at my Medicare EOMB, my explanation of Medicare benefits, and determine did I really get what they told me that I was charged for.

Does the panel sort of see that Americans have gotten away from believing that they have a responsibility for healthcare? Anybody?

Mr. KENDRICK. I think there is an element very true in what you are saying, but it is the interpretation. My wife worked in healthcare for a number of years and, you know, if we have a world where the medical professional is calling on a high school graduate to interpret benefits and reimbursement to the doctor, then by the time it gets to the individual who received the care and they get the form, they are not qualified to do their own interpretation. I mean, they do not know.

Mr. DAVIS. A lot of layers of bureaucracy.

Mr. KENDRICK. They do not know.

Chairman SHULER. Will the gentleman yield?

Mr. DAVIS. Yes.

Chairman SHULER. One question—two questions. How long would it take all of you to run a P&L statement for your business? How long would it take you to run a P&L statement for your business?

It could be back in ten minutes probably.

How long would it take each one of you to get your personal medical history compiled together?

[Laughter.]

Ms. MASTERTON. A long time.

Chairman SHULER. I think that is what Congressman Davis is saying. We personally have to take care. We can put a lot of blame and we can hope that the federal government would do a tremendous amount, but when it really comes down to it, I mean as individuals, we have to be responsible for our healthcare. And part of that would be a wellness program, preventative care, disease management, the technology that is available—and that is one of the things that the hospitals—I know that our hospitals locally are doing a data link system that really truly is trying to inter-link our hospitals and our doctors' offices so they do not have duplicate services when they get there.

Now not everyone can eat healthier and exercise more. We understand that. But if we all make a little small part of the big pie, we are going to lower some of the healthcare costs and we are going to ultimately get into, you know, whether people are for or against or whatever your idea of universal healthcare is, if we do not take control of our own personal health, we will be taking that P&L statement, I am telling you, and all we are going to do is take it from one industry to another. And ultimately, I am afraid that that industry will be the American tax dollars and we will be paying taxes back into it.

And I apologize and I yield back.

Mr. DAVIS. Very good point.

Ms. MASTERTON. I think that it is very important for people to take responsibility for their health and I know that the hospitals have a big plan with their employees to do that and I know the City of Asheville does that and I know it is a very important part of what the Chamber is doing, supporting healthy lifestyle. It makes a huge difference. And I think that, you know, from my perspective, again, if I were to just say here is $400-$500, go decide what you are going to do yourselves, it's just that there is—if you are young, it is cheaper and if you're old, it is cheaper. So do I pay the 50 year old women $900 and I can give the young guys $90? That is not fair. So then I get caught up in how do I take care of my staff. I mean I provide a parking spot for them and I provide healthcare for them and I provide a uniform for them. And, you know, that is part of mom Masterton takes care of her kids in this way. And I make less money because of it, but it is part of what I do.

Mr. DAVIS. You are a good corporate citizen, thank you for what you do. I yield back.

Ms. COWARD. I do think—let me say one thing—that in western North Carolina, because we do have a really large percentage of Medicare and we are getting paid less, I agree that people should take more responsibility but I do think with this cost shifting, that employers are ultimately having to pay a lot of costs that are being shifted to them that other parts of the country are not having to pay, other like kind areas.

Chairman SHULER. I agree with you. And I commend this panel for the work that they have done with your own business. As you

can probably tell, I mean, we could spend hours upon hours discussing the things that we can do to better this healthcare problem and this crisis that we are truly in. Congressman Davis and I have our work cut out for us, and as do our colleagues, to really try to find this comprehensive plan that can actually work. I think some of the most important things that we can do is provide healthcare coverage for our seniors, healthcare coverage for our children. We have got some work to do and having this testimony certainly helps because we know now—we do not just assume and we cannot do our job effectively in Washington if we do not hear from you and we do not understand what your needs are in the small business arena. It is real easy when the big corporations show up with their folks, but it is sometimes the small businesses that we never hear from and that is why it is so important that we continue to work together, work with our chambers, work for our small business groups and collectively work together to see how we can better benefit our small businesses and our communities.

Just as we said, if we can lower those costs one small company at a time, then over a few weeks, months and years, we are going to lower our healthcare costs. But we have to be actively involved and I think it is going to take different layers, as we have discussed here and we have heard, our witnesses have given us great testimony, the obstacles that you are in in your business.

Ms. Masterton, it is incredible that you continue to provide healthcare coverage for your employees, and I commend you for that. That is an outstanding job and I know they respect you and retaining your employees I know is—when someone works for you for nine or ten years, it is a compliment to you as an employer. And I know that they are not there just because of healthcare, but knowing that you provide that, that really comes from the heart. And I commend you, and I commend all of you for the hard work that you are doing in our community.

And at this time, we will have the second panel come forward and I thank you for your testimony.

[Pause.]

Chairman SHULER. I would like to thank the second panel. As you can tell from our first panel, we have got a lot of obstacles to overcome in our healthcare. Obviously, from the provider side, from having quality care. I know that this panel obviously—we all listened very well in knowing that our healthcare costs and needs and how we collectively in the long can pull the rope in the same direction, to truly know that we need the quality of care first, access to care and that we can better be a healthier community. And there are so many ways that we can get there, let us just see—we know what the ultimate goal is, to have insurance and provide insurance in some capacity for all Americans. But some of the most important things we have to do is have their access to it. And some of the access requires that their health insurance is not the emergency room and that is not their primary care physicians, the emergency room. But actually provide access through our providers and hopefully through employers more, but we have to get ahold of our healthcare system.

I would like to welcome the second panel. I look forward to your testimony. I would like to call our first witness of the second panel,

Miriam Schwarz is the CEO and Executive Director of Buncombe County Medical Society. Ms. Schwarz also oversees Project Access, a charitable organization that provides free healthcare for uninsured through physician volunteer basis.

I thank you and you have five minutes for your opening remarks.

STATEMENT OF MIRIAM SCHWARZ, CEO AND EXECUTIVE DIRECTOR, BUNCOMBE COUNTY MEDICAL SOCIETY

Ms. SCHWARZ. Thank you, Mr. Chairman, Mr. Davis. I am very honored to be here today. My name is Miriam Schwarz and I am the CEO of the Buncombe County Medical Society. I have been on the job for two months. But during that time, I have heard from a lot of physician practices and have also gotten to know the Project Access program very well.

So today, what I would like to do is to focus on two key points: One, physician practices as small businesses; and the second I would like to talk about the Buncombe County Medical Society physicians as providers of free care to the working uninsured.

Beginning with physician practices as small businesses, there are approximately 500 physician practices in the 16 counties of western North Carolina. Most of them are small businesses. Like all small businesses, these physician practices have a hard time affording insurance because they have so few people to spread the risk. One sick employee and the small business's premiums go through the roof. Thus, small businesses pay higher premiums per person than do large corporations.

And it is a fact, as we have heard already, that many small businesses have to offer reduced benefits in order to survive. Most of our doctors' offices have reached a point where they can no longer afford to pay the entire premium for their own staff's health insurance, so they are increasingly asking employees to accept higher deductibles and pay a higher share of premiums and they are dropping family members from the plan.

Here is one story from a practice I talked to, this is quote:

"From the employer point of view we are, like everyone else, stuck with reviewing options and deciding whether to renew current coverage, reduce current coverage or seek coverage with a different insurer. This is time consuming and expensive, just to get the information. Then comes decision time. At present, it is a trade off between increasing deductibles and requiring employees to pay more of their premiums. Insurance coverage—health, business-owners and malpractice—is the single largest expense we face each year."

In addition to dealing with their own employees' healthcare plans, physician practices must also deal with the ever-changing landscape of healthcare coverage for their patients, as small businesses shift to less expensive coverage and deductibles. The impact of the shifting sand is summarized by this one practice, quote:

"It is very likely that during the next few months, we will have to add a staff position to do nothing but handle precertifications and authorizations for managed care entities, not to mention the Medicare Advantage plans. It is difficult to keep up with the ever-changing coverage as employers shift to different, less-expensive coverage, and employees are not usually up to date on their current

coverage. This requires additional time on the part of the front desk personnel to get new information, then on the part of billing staff to verify coverage and make changes in the computer. Collecting balances then becomes more difficult because patients are now having to meet higher deductibles than in previous years.

It is a constant challenge to keep this ever-changing landscape in view, and it has a ripple effect that touches just about everyone in the practice."

Now I am going to talk a little bit about the physicians as providers of care to the working uninsured. I am going to start with a story of one of our patients.

This patient was diagnosed with adult-onset asthma, with severe breathing difficulties requiring unaffordable medications and doctor visits. Her part time work did not provide her with health insurance. Project Access came to her rescue, as it has with so many other thousands of patients in Buncombe County. After receiving proper treatment, her breathing improved and she was able to get a full time job that provided her with health insurance. She says of her doctors, they saved my life.

Eleven years ago, the physicians came together to organize the charity care they provided, making it more efficient, more comprehensive and more accessible to patients. Project Access is an integral component of our local safety net healthcare system and that includes primary care, specialty care, hospital services, labs and other services for low-income, uninsured patients.

It is a strategic partnership between the government, non-profits and for-profit organizations. The doctors have donated over $10 million in free care for 3300 patients this year alone. In the past 11 years, 18,000 patients have been served with a total value of services of $72.8 million.

Forty six percent of our current Project Access patients have no insurance but they work full time, part time or are self-employed. Over 85 percent of the county's private practice physicians are participating in Project Access and, remember, these practices are small businesses themselves, struggling to insure their own employees. But they give away free care.

This program, Project Access, is a great program being replicated all over the country, but I am here to tell you that our physicians are growing weary. The physicians of Buncombe County are giving away free care to the working uninsured, but those numbers keep rising and they cannot keep up with the pace. Their own health insurance premiums are up, physician reimbursement is down, medical liability insurance premiums are up. The healthcare system does practice some defensive medicine for fear of litigation and healthcare coverage for patients is becoming scarce because employers can no longer afford to provide coverage for their employees, let along their family.

I want to emphasize that Project Access is not a cure for the uninsured. Project Access is not the answer to this incredibly complex problem of national healthcare reform, it is just a stop gap measure, an example of a community of physicians locally trying to address a problem in the absence of policy reform at the state and national level. Project Access is ethical and philanthropic doctors working for free, and there is only a certain amount of free care

that doctors can afford to give away. Relying on charity care is not the solution.

Thank you.

Chairman SHULER. Thank you for your testimony.

Our next witness is Mark Leonard, CEO of WestCare, a non-profit healthcare provider that delivers healthcare to over 80,000 people living in western North Carolina.

I welcome you and you have five minutes to give your testimony.

[The prepared statement of Ms. Schwarz may be found on page 49 of the Appendix.]

STATEMENT OF MARK LEONARD, CEO, WESTCARE

Mr. LEONARD. Thank you, Mr. Chairman and Mr. Davis for allowing me to present the hospital perspective of providing care to our uninsured patients.

Increasingly large numbers of Americans and North Carolinians without health insurance is a growing problem and I applaud your efforts in bringing us together today to discuss it.

Let me briefly describe our health system and the impact of a growing uninsured population. WestCare Health System consists of Harris Regional Hospital in Sylva, Swain County Hospital in Bryson City, Mountain Trace Nursing Center in Webster, WestCare Medical Parks of Franklin, Sylva and Bryson City, along with a variety of ancillary programs and services. WestCare employs over 1020 staff members. Each year, we will see over 6000 hospital admissions and another 95,000 outpatient encounters. Our medical staff performs almost 6500 surgeries each year and deliver over 750 babies each year. We see over 27,000 patients in our two emergency departments annually.

Our primary service area consists of Jackson, Macon, Swain and Graham Counties. Almost 90,000 citizens live in this service area. Approximately 18 percent of western North Carolina's population is 65 or older, as compared to the state average of 11.7 and the national average of 12.1 percent. Additionally, our region experiences greater incidence of poverty than the state average.

Being uninsured can create grave negative health consequences. Uninsured patients often put off seeking care until a condition is serious and includes multiple complications. These patients will seek care through our emergency departments as well as ERs throughout the country. Uninsured patients make up over 24 percent of all patients treated in the emergency departments at WestCare Health System. An emergency room is the most costly setting to provide care. Unfortunately, the ER oftentimes becomes the family physician for people without health insurance.

Gentlemen, I am embarrassed to tell you that the Institute of Medicine estimates that approximately 18,000 people die each year nationally from diseases and conditions that are treatable and preventable, simply because they do not have health insurance.

At WestCare, we, like many other hospitals, define uncompensated care as consisting of shortfalls from the Medicare program, the Medicaid program and from the uninsured. At WestCare, the total annual cost of uncompensated care we provide exceeds $8,200,000. Five million dollars of that amount is the cost of care

provided to our uninsured patients. And at WestCare, we have seen this trend line accelerate at an alarming rate. In 2003, we provided $2,500,000 in cost of care to the uninsured. Remember, we project that amount to double to over $5 million this year. And at WestCare, over 25 percent of our uninsured patients are employed. That is to say, $1,250,000 of cost of care is provided to patients who are employed but for which we receive little or no reimbursement. And of course, when the uninsured receive care, their care is paid by others. We, like other health systems, make the difficult decision to pass along the cost of their care to privately insured patients. This reality is necessary in order to come close to recovering our daily operating costs. This creates a vicious cycle. As the uninsured increase or when Medicare or Medicaid cut reimbursement rates, we are forced to shift our costs and ask the privately insured patients to pay more. This puts a greater burden on employers who often decide then that they can no longer provide health insurance. In turn, more people are uninsured and the problem only gets worse. To continue to break even, WestCare and other hospitals must shift these losses to the privately insured, which will only result in more uninsured patients.

Yesterday, the Census Bureau announced that the number of people without health insurance rose from 44.8 million in 2005 to 47 million in 2006. The Census Bureau figures, however, looks at the total population. However, just about everyone over 65 is insured through the Medicare program. By including the over 65 population, the Census Bureau's figures are somewhat misleading and understate the problem. If you look at just the 18 to 64 age group, the uninsured rate for the U.S. is 20.3 percent, the rate for North Carolina is 19.5 percent and the rate for western North Carolina is 20.1 percent.

Mr. Chairman, Mr. Davis, thank you again for your leadership in highlighting this significant issue.

Chairman SHULER. Thank you, Mr. Leonard, I appreciate that.

Our next witness is Dr. Baumgarten, a physician in private practice at Asheville Family Health Center. Mr. Baumgarten is Vice Chief of Staff at Mission Hospital.

You will be recognized for five minutes.

[The prepared statement of Mr. Leonard may be found on page 53 of the Appendix.]

STATEMENT OF ALAN BAUMGARTEN, M.D., PHYSICIAN, ASHEVILLE FAMILY HEALTHCARE AND VICE CEO OF MISSION HOSPITAL

Dr. BAUMGARTEN. Thank you, Chairman Shuler, Mr. Davis. As you know, my name is Dr. Alan Baumgarten, I am a family physician, 20 years in practice with Asheville Family Health Center, Vice Chief of Staff for Mission Hospital and also the Buncombe County Medical Society representative to the Healthcare Roundtable, Business Healthcare Roundtable.

I will speak about doctor-patient relationship and how this affects on a personal level our patients; also how it affects our community and the level of providing these services.

The opening line of a very recent New York Times editorial reads something like "Many Americans are under the delusion that we have the best healthcare system in the world." A recent study conducted by the respected Commonwealth Fund, comparing the United States and other advanced nations, found that in fact, we were at the bottom of healthcare measures when compared to other countries like our own, such as Austria, Canada, Germany, New Zealand and the United Kingdom. I will not go into the details of it, but it is astounding that we can think we are the best when we actually look at real measures of infant mortality and adult mortality rates.

Healthcare is also facing a major financial crisis. The U.S. is spending more than 16 percent of our GNP on healthcare and the figure is rising. We spend more than twice per person than any other country in the world, and that includes uninsured people and that is more than twice any other country in our comparison group. In spite of this huge expense that we are paying, more than 47 million Americans, as cited earlier, are out of the healthcare insurance system. U.S. Census Bureau data has also indicated that that portion is greatest in the uninsured working population and that is involving an employment-based insurance system. Working Americans make up the fastest growing segment of the uninsured and that is a system failing us.

You asked me to address these issues relative to small business, and I will do so. But I will say that it has to be identified in the context of our broader system, which is failing us.

I have several examples of patients that I work with that have been caught in the web of this system. The first one is Susan, a 56 year old female with a history of breast cancer, now ten years in remission. She works at a local day care center, child care center, not a high paying job. And her employer actually covers her with health insurance. It is a great benefit that covers catastrophic care with a $5000 deductible taken off from her $18,000 income. She has a nagging fear of a recurrence of her breast cancer and so she keeps up with her annual preventive maintenance care, which probably costs her out of pocket somewhere around $800. She gets routine mammograms, routine chest x-rays, routine chemistries each year as well as physical examinations.

About three months ago, she came to me with a new problem, headache and dizziness. She could not shake the concern about her recurrence of her cancer and we went through a number of measures to try to mitigate the simple explanations of her problem. Of course, none of those really resolves her concern, although some of them helped make her symptoms less significant. And she came back about a month later saying "I need a CAT scan, I cannot go on like this I cannot do my work, I think I have cancer." Of course, she paid out-of-pocket the $1200 which was not covered by her deductible, so her total bill went up to about now $2300 for the year and her CAT scan was normal.

Don is a 59 year old male who is working as a repair technician for a major business office equipment company, diagnosed with a rare abdominal sarcoma. He had good healthcare benefits when this all started and fortunately it covered most of his medical expenses that included diagnostic, surgical, chemotherapy and recov-

ery. However, he was not able to work during that period of time. When he came back to his job, there was no job. He is a very capable person, started his own business as a repair technician, covered himself under his COBRA health plan until it expired. Don then went into the open market for insurance and of course found that he could not afford any, could not get covered on his wife's policy because of his previous conditions. He did well for approximately another year when his abdominal pain returned. A CT scan confirmed the recurrence of his cancer. After another surgery and more chemotherapy, Don has been unable to work. He has no health insurance, they are nearly broke and about to lose their home.

My third case is Carmen, a 22 year old female, which is incredibly sad. After high school, she moved to Charlotte to take care of her father, who was dying of liver cancer. At 19, she returned to Asheville, got a job as a receptionist in a small business in town, got health insurance because her employer thought that was good, became engaged, pregnant and on Christmas Day a year ago, her husband was killed in an automobile accident, two months later she gave birth to a baby boy that died one month later with SIDS.

One would ask how much can someone like this take. She could not work, she went onto Medicaid. She received some excellent counseling and was back to work about nine months later. Six months after that, she came in for her own personal routine examination where I discovered a thyroid nodule. It was diagnosed as thyroid cancer, she required I-131 therapy. She was working for a new employer now who did not provide health insurance, so she was left with deciding does she quit her job, which was providing her her sanity and go back onto Medicaid so she could get her coverage, or otherwise. I consulted with the therapist, with her family and with this young woman, we all decided she needed to stay in the workforce. I was able to get the pharmaceutical company to donate I-131, I was able to get the hospital to donate free coverage for the few days of her hospital stay and I was able to encourage a specialist to administer the therapy at no cost. That only took me several hours to accomplish, and also my own charity care.

So what we see today is a system that is well identified by Ms. Schwarz that is relying very heavily on the charity care of physicians to cover what should be an employment health based system that does that job.

Absence of insurance coverage for employees of small businesses has other far-reaching consequences. The lack of preventive healthcare benefits means that most illnesses are diagnosed later than their natural history resulting in higher medical costs. Acute care is delayed until a simple problem becomes more serious resulting in complicated and costly care, requiring often hospitalization at a higher rate. And the lack of insurance is associated with limitations to primary care access, resulting in patients who obtain their primary medical care at more expensive facilities; namely, the emergency department.

Uninsured patients with more severe and catastrophic illnesses, complicated illnesses, generally end up receiving charity care from the community hospitals and from their physicians. As we know, these rates are high, they have already been outlined. And we have

also understood that a higher percentage of Medicare and Medicaid patients in our region relative to the other regions of the state and the country. These are government payers, for which both hospitals and physicians are reimbursed at rates below their costs, so we are resorting to the cost shifting. You have heard now at least three times a mention of the cost shifting initiatives. We know that that is not a sustainable task, we cannot continue to pass on the costs of uncompensated care to private payers. We heard it being mentioned as a vicious cycle, it is actually a vicious cycle for our community in a much greater way because when these insurance companies are tasked with paying for the uncompensated care, they raise their rates. They raise their rates to our small businesses who then have to deal with higher rates as we heard from the first panel. So this is not a sustainable system.

I will not address the issues of primary care physicians since Ms. Schwarz did that so well. But I will say that these are small businesses as well and they are incapable of shouldering the rising operating expenses of our small businesses as well as providing the unending charity care.

To address local healthcare financing concerns, the leaders of Asheville and our communities nearby have formed a Business Healthcare Roundtable and we have come together in four areas that have already been addressed. We are trying to keep our hand on the pulse of these issues nationally as well as statewide. And can only do so to a certain degree. The issues are far greater than what our local community can deal with.

The American healthcare system, as you know, is not sustainable as it is going on today. We need leadership from Washington on these issues so that all citizens can at least get a basic level of care. If our health insurance, employment based insurance system, is not the answer, we need answers from beyond that. We need to be thinking about it on a national basis.

I thank you for your time.

Chairman SHULER. Thank you, sir.

Our next witness is George Groome, the owner of Colton Groome & Company, providing health insurance for small businesses here in western North Carolina.

Mr. Groome, you are recognized for five minutes.

[The prepared statement of Dr. Baumgarten may be found on page 59 of the Appendix.]

STATEMENT OF GEORGE GROOME, OWNER OF COLTON GROOME INSURANCE

Mr. GROOME. Thank you and good afternoon, Mr. Davis, Chairman Shuler, thank you for your efforts on our behalf in Washington.

Had I known what a task it was to solve the healthcare crisis in 300 seconds, I might not have accepted this challenge. It is going to take me 324 seconds.

I am George Groome, President of Colton Groome & Company. We are a 56 year old financial and benefit consulting company here in Asheville. I have been with the firm 33 years. We work with ap-

proximately 120 businesses in this area and cover over 10,000 covered participants in some form of employee benefit program.

One of our areas of concentration is employer sponsored medical insurance programs, and as you can imagine, in western North Carolina, we work with companies that would have ten to 250 employees, as that is the backbone of this economy.

According to our local Chamber's survey, the number one concern of our membership, which is about 2000 folks—actually over 2000 folks, as primarily small businesses—the number one concern is healthcare and affordable health insurance. The community assessment that was done in 2005, you have already heard, there are 40,000 uninsured residents in Buncombe County and 22,000 of those folks are actively at work and still uninsured.

Our experience is that more folks are going uninsured because small businesses are canceling their plans or employees cannot afford their fair share of the premium. And we—and I will define we, we are the government, we are the providers, we are the employers—we are the full time insureds, we are paying for the uninsureds to receive medical care that they deserve and that they need. We are paying in one of the most inefficient ways possible, called the transfer system, transfer taxes and cost shifting.

The answer does not lie in a national healthcare or government administered payment plan. The best way for small business to address the healthcare needs of their employees is through quality, competitively priced private financed insurance, commonly known as the free enterprise system.

The healthcare system is not perfect at the insurance carrier level. It is not perfect at the provider level and it is not perfect at the legal system level. Each of those areas is flawed and those flaws need to be addressed. However, the free enterprise system, even with its flaws, holds incredible promise as part of the fix.

I have four thoughts on how to mobilize the free enterprise system in this endeavor.

My first premise is that we can insure the most folks the quickest and the fastest through quality employer programs. We need to evaluate requiring employers to provide coverage for all employees working 20 hours a week. Simple incentives and subsidies can be designed to make the employer whole. This approach should relieve the pressure on our social systems, resulting in savings to at least partially finance a more effective system. Larger employers, especially larger employers, will use part time status as a cost reduction technique to not cover part time employees. And of course, thereby driving down cost.

Insured employees, as pointed out, end up paying for the uninsured through the transfer payments in their increased premiums. It is irrelevant to me and I think hopefully to this audience, it is irrelevant whether we pay $8.99 for a CD at Wal-Mart or whether we pay $9.99 for a CD at Wal-Mart. What is relevant is that our citizens and our certified workers that are capable and that are willing to work 20 hours a week are insured and receive medical care.

Secondly, with more folks covered for medical services, I believe that we would have better and more appropriate access to medical care. If you have better and more appropriate access, you should

have better outcomes. With better outcomes, you should have reduced costs. I agree with other statements regarding consumer responsibility in directing and purchasing medical care.

Thirdly, with a significantly larger insured population, we should be able to compete—create more competitive insurance rates, especially for the small business. Small businesses have little to no leverage with carriers and there are few alternatives. In western North Carolina, we have two alternatives for small businesses, United Healthcare and Blue Cross-Blue Shield.

Where there is a deemed lack of competition in the medical insurance marketplace, as here in western North Carolina, government can stimulate that competition through incentives and rate subsidies to insurance carriers that are willing to participate in the under-served markets. we are already subsidizing those rates through transfer payments and cost shifting.

Access to quality services need to be incented through the provider community as well, as my fourth point. That is continued in my written comments and elaborated on there.

In summary, government incentives and subsidies, in my opinion, are superior to government intervention in insuring, financing and controlling the costs of quality medical services. I believe government can effectively direct funding to impact the healthcare crisis through incentives to employers, through incentives for the providers and incentives to the insurance carriers to create more competition. We can retain what is great about out healthcare system while making sure access and payment for services are delivered efficiently through employer-sponsored plans, where the lives and the needs of the families, as you have witnessed from these panels, where those lives are experienced on a daily basis up close and personal.

Considering the alternatives, my hope is that these thoughts may merit further consideration and we thank you for your interest to make sure all Americans have access to affordable and quality healthcare.

[The prepared statement of Mr. Groome may be found on page 64 of the Appendix.]

Chairman SHULER. Mr. Groome, thank you so much.

Mr. Groome, in terms of an incentive, do you think that receiving a tax credit is enough tO incentivize small business companies to provide healthcare to their employees.

Mr. GROOME. It may have to be a subsidy instead of a tax credit. Some small businesses don't pay tax and as a result, a credit would not help those organizations, but if there is a subsidy, then that might encourage and give small businesses the money to pay those premiums.

Chairman SHULER. When you talk about a subsidy, are you talking about to the large provider that just received the largest profits in insurance history?

Mr. GROOME. No. Let me use primary care as an example. My understanding is we have a shortage of primary care, access to primary care.

Chairman SHULER. Absolutely.

Mr. GROOME. Well, if I am twenty some odd years old and I am looking at going into primary care medicine versus going into dentistry, I know that I can work half the time in dentistry and make twice the money. Now I might probably go into dentistry, assuming I have the intellectual and manual skills to make that choice. And I think that we need to have the incentives to direct folks into the areas where we are under-served, and that's one example.

Chairman SHULER. You are not suggesting give subsidies to the big insurance companies?

Mr. GROOME. Oh, when you said providers, I'm sorry—

Chairman SHULER. I am talking the insurance company providers.

Mr. GROOME. Well, I am suggesting you give subsidies to anybody in Asheville, North Carolina who will come in and increase the competition and offer Bob Kendrick more options and Laurey Masterton. They have two options right now.

Chairman SHULER. And I think that is what this bill did that we passed in the House.

Mr. GROOME. Good, good. And that would be tax credits.

Chairman SHULER. It would enable, through these tax credits and incentive for actually a pool of financing to be able to help fund smaller insurance companies to be able to get back in the market. And I think we were able to realize that. I just want to make sure we are on the record that we did not go to the large insurance companies and that is where we gave subsidies. We have seen how that happened in the oil industry.

Mr. GROOME. I was encouraged when you pointed that out.

Chairman SHULER. Mr. Leonard, how are you dealing with—obviously we are talking about providers and we are talking about access to healthcare—how are you—the recruiting process must be very, very difficult to recruit a student out of med school to come to Jackson County versus going to Mecklenburg County, especially when we are looking at maybe in the more specialty areas. How has it been and how are you dealing with being able to incentivize students or doctors, other than the quality of life that we have here in the mountains?

Mr. LEONARD. Certainly it is becoming more and more competitive and it is more competitive certainly for primary care physicians around the country. And to try and find those physicians, those residents that are interested in a rural environment, a rural community is a smaller pool of folks. And then if you tell them that 20 or 30, 40 percent or greater of their patient pool may not be able to pay for their care, again, that becomes even a greater concern and we are now experiencing residents coming to us in the last 12 to 18 months here in western North Carolina that are now saying I am not interested in a private practice model. I will come on and be your employee and you, hospital, employ me; i.e., shift that risk to the hospital because they do not want and are not able to be successful business men and women as the earlier generations of physicians have been able to, and still practice good medicine. And so that shift, that risk is now being shifted not only nationally but here in the mountains as well to the hospitals.

Chairman SHULER. Dr. Baumgarten, are you looking at the same problems here—

Dr. BAUMGARTEN. Absolutely.

Chairman SHULER. —Mission Hospital, because it is a larger hospital provider than it is in a rural area.

Dr. BAUMGARTEN. Recently North Carolina—the Institute of Medicine came out with a study that identified how great the significance shortage in western North Carolina will be. There is some early discussion on the state level of expanding medical education from all the medical schools. We are, therefore, looking at ways of ensuring that there will be more physicians for western North Carolina. Mission Hospital is thinking of becoming involved in that process of becoming an alternate training site for third and fourth year medical students. So there are some interests in expanding the available pool for physicians, but when you talk about primary care, that is going to be a hard sell, that is the population of physicians that is shrinking the fastest. As Mr. Groome was saying, when you look at the specialty areas of physicians, you know, there is the top and there is the bottom, and the bottom is losing its population because it is also the lowest income generator. So we have to look at reimbursement systems that incentivize primary care physicians to stay in business and to go into that business of primary care if we are going to keep lip syncing that primary care is the backbone of the American medical system.

Chairman SHULER. There is a little statistics that I have seen that said that actually a vet, a veterinarian, will actually make more money than a primary care physician will in the first ten years.

Dr. BAUMGARTEN. I think that is absolutely true.

Chairman SHULER. Are you seeing—how much, if you take a single practice, how much of the paperwork would you—I mean how important it is, administrative, when it comes to the paperwork, dealing with—

Dr. BAUMGARTEN. Primary care is the highest overhead of the medical professions. We basically run between 60 and 65 percent in overhead. We average between four and five employees per provider in primary care. A lot of that is billing, paperwork. We are the front line that gets all the disability forms, all the insurance forms, all the out-of-work forms, as well as the filing for primary healthcare. We are the offices that set up the referrals to the specialists, we are the offices that receive all the paperwork and consultations. When you asked about that medical record, we are the location where it all comes back to, our computer systems are bursting.

Chairman SHULER. I was in the medical profession as is Congressman Davis. The area which I was in was the IT sector and as I traveled throughout the United States, I would go to different hospitals and meet with the chiefs of staff and all the IT sector and the marketing sector. I realized pretty quickly that there was not a single hospital in the United States that could communicate with one another. I mean it was very, very difficult and I think what the hospitals are doing, obviously with WestCare and with Mission being able to do the data link together is going to save a tremendous amount of overhead.

And so I commend and kind of brag on the hospitals, although we compete against one another, truly the most important thing we

have seen is the care of the patient. And we have got to find a better way to get to electronic medical records at a much better rate than we are presently doing. Technology in medicine has continued to—it has been incredible what we can do and the longevity in medicine, modern medicine, but the IT sector of it, we are still running around with paper all the time. I know there is complying with HIPPA compliance and even a much better way to apply it through HIPPA regulations is through the medical records.

Mr. Leonard, just very quick—and I think this is something that obviously Congressman Davis and I can really take back—explain to me, give me the Readers Digest version, if you will, of how you are self-insuring. And I know a lot of our small businesses cannot do this, but how you are incentivizing your employees to eat healthy and exercise and maybe some of the benefits of being able to pay some of their healthcare costs and what that healthcare cost would be if they meet certain goals and requirements through the company.

Mr. LEONARD. The other panelists have recognized and they are correct, that there are only two choices here in western North Carolina. We cannot afford and have chosen not to use either choice—Blue Cross or United. When I go out to chambers of commerce, folks will say, now wait a minute, you are part of the problem. And I say well wait a minute, we are a provider but I am also an employer, 1020 staff members. We self-insure those staff members for their health insurance and we provide health insurance to our full time as well as our part time employees.

We cover 80/20, 80 percent of the healthcare bill is paid for out of WestCare dollars and 20 percent of that bill is in the form of the premium to the employee for their coverage or family coverage. In 2002, we spent 2.5 million of WestCare dollars for that health plan benefit. This year, we expect that to almost double, up to 4.8 million of WestCare dollars, not including the family, the premium increases. We are at about a break-even. The margin on healthcare, the operating margin, is very thin. If that rate continues, we cannot continue to keep the lights on and the doors open. We have been, for the last several years, yes, going out and encouraging our employees locally as well as regionally. Joe DeMore at Mission Hospital has been a leader in a "know your numbers"campaign, making sure that employees—we take personal responsibility for knowing what your cholesterol counts are, knowing what your PSA counts are, knowing what your blood pressure is, knowing what your exercise needs are and your weight and body mass index is.

So we are trying to target some of the high costs and high risk patients, those patients with asthma, those patients with diabetes; i.e., employees of ours that have diabetes, that have uncontrollable diabetes or asthma, in giving them incentives as part of a health plan so that they come in and get their blood sugars checked on a regular basis. And we have seen significant reductions and good results. Very much baby steps but we are trying to get our employees pointed in the right direction, encouraging again, tobacco-free utilization throughout our workforce, healthy lifestyle.

Chairman SHULER. So through this disease management program that you are basically creating, the wellness program, are you seeing that numbers of days in the hospital have decreased, num-

bers of days at work have increased? Have you seen any of those statistics, been able to truly see a difference?

Mr. LEONARD. Not yet, because again, we are still very early into the program, but what we are seeing is if we are investing the time, energy and the encouragement now, that three years, four years, five years down the road, we will have a healthier, longer retained workforce with us. It is a long-term commitment.

Chairman SHULER. Ms. Schwarz, obviously we have our healthcare providers here, we are talking about our docs. As we are seeing, basically their profits go down, how are you able to incentivize and has it been more difficult to get physicians to participate in the program?

Ms. SCHWARZ. In the Project Access?

Chairman SHULER. In your program, yes.

Ms. SCHWARZ. The physicians participate in Project Access, I think mostly from a sense of altruism and wanting to do right by their community. So that has actually carried the program for quite some time. We are in our 11th year, that is a long time for a charity care program to be operating. Most of the other Project Access sites that are springing up around the country are either in their infancy or only a couple of years old.

And as we continue, what we are finding is that physicians are growing increasingly frustrated at the never-ending cycle of the uninsured coming through their doors. I think what is happening is it is beginning to feel like an onslaught that just will not stop. They are the terminus, I mean, you know, they are the ones that end up with this human being—and you have heard, you know, some very eloquently stated stories about human beings ending up in front of that physician and by the time that person gets there, you know, the physician is ready to do what he or she needs to do to take care of that person.

So for us, it is a matter of continuing to ensure that we are helping to channel the appropriate patients into the system, we have to have mechanisms in place to do that, to do good screening, eligibility requirements. And to keep the burden, red tape and so forth, out of the physician offices as much as possible. It is a challenge though, continues to be a challenge.

Chairman SHULER. At this time, I would recognize Congressman Davis.

Mr. DAVIS. Thank you, Mr. Chairman. Thank you, panel, you have done a wonderful job.

Mr. Groome, you talked a little bit about subsidies and trying to go from a two provider insurance group to choose from, to have other options. The one problem that I see, in the federal government, once you start a program, it starts to grow and it is hard to get the genie back in the bottle. We have seen that over in Tennessee with TennCare, if you followed what happened over there. I can see Mr. Leonard has followed that.

Mr. LEONARD. Very well.

Mr. DAVIS. It just about bankrupted the State of Tennessee and they finally had to stop it. And that is one of the problems.

One of things I wanted to talk about is you mentioned, Mr. Chairman, in your statement that veterinarians can probably make more than M.D.'s can. Can you help me understand maybe the dif-

ference? Some of the difference that I see between M.D.'s and veterinary medicine over that first 10 years is probably there is not as much insurance, there is not as much regulation, not as much liability. Help expand on that. Is there a difference between the two and why can the veterinary doc, for the first 10 years of a practice, make more money than someone taking care of humans? Is there a difference?

Dr. BAUMGARTEN. Yes, they get paid for what they do. I mean you go to your vet and you take your dog in for his examination and you get a bill for $98 and you go to the window and you pay $98.

Mr. DAVIS. You just hit on my point that I was making to the other panel. We understand when we go to the veterinarian that, you know, if it costs $300 for the procedure, we are going to have to be responsible for that. And I do not think we need to get to the point in America where Americans go back to the days before 1965 where there was a Medicare program where you had to take care of all your healthcare. But as we continue, in my mind, to add more and more government, more and more layers of bureaucracy and have less and less choice. And we have someone else taking responsibility, we are to the point, in my opinion, that when my father who is now 80 years old, receives a Medicare explanation of benefits, I am not saying he needs to pay for the care, but he at least ought to take the time to read it and see if the services that he's being charged for was actually provided.

Do you see that if Americans would at least get more involved in their healthcare to understanding the healthcare system, that it would be a help for us? Anyone on the panel.

Dr. BAUMGARTEN. I absolutely believe that we all need to be much more involved in our health and wellness. There is no question about issues related to rising obesity, and if you think we are in a healthcare crisis now, when we start dealing with the downstream medical consequences of 30 percent of the adults being obese, you have not seen anything yet.

So yes, there is a great need to be responsible medically for that. I think that that is why we need to re-address the system that we are involved in right now, because we—there is no level on which we address accountability at this point, whether that be medical, personal or financial. So there are some tremendous needs here that we are facing.

But I will say that unless we look at the system as a whole and have the strength and fortitude to look at it as a whole, we will be continuing to apply the bandaids that we started with after World War II, and right now we have a system that is patchworked together. Very few buildings are successful when you construct them a room at a time.

Mr. GROOME. I think that the healthcare savings accounts will help people read their statements, if they are being debited for the $110 and I think that the healthcare—from our experience, healthcare savings accounts are a little simpler than what people think they are and what employers think they are. It is going to take awhile for them to catch hold. I admire the Van Winkle firm for phasing it in over a three-year period. If people are actually paying the bill when they check out and it is coming out of their

health savings account, I believe they will read the bill and make sure that they received the services.

Dr. BAUMGARTEN. The concern I have about healthcare saving accounts is that basically people often will see that as being an expense out of their pocket and choose not to go seek the appropriate primary care that they need in order to prevent a problem from being a downstream consequence or catastrophe.

And though I think it is great to incentivize people to be responsible for their care, you know, some people are choosing between that and some other need that they have. And you know, we actually are a self-insured business as well, the Asheville Family Health Center, and recognize that it would be very difficult in our organization to start an HSA where there is no pool for the single mother who has two children to initially start drawing off of, unless we as a small business, put in the couple thousand dollars that they need in order to get started. So suddenly we are left with having to come up with $200,000 to get the system rolling.

Mr. DAVIS. I would like to thank the panel again. You have been excellent presenters.

The one thing that I take away from this meeting, we all agree that there are some problems in healthcare, there are some problems with access to healthcare. I think we need to continue this debate on finding solutions for those problems. I do not think we are going to be able to do that in a two hour hearing, but hopefully we can continue as we move forward, because I think we all do understand that we need that.

And Mr. Shuler, thank you for your leadership today. Thank you for allowing me to come across the mountain. And I yield back.

Chairman SHULER. Well, thank you. I think we all can reiterate that having adequate access to healthcare is so important.

And one last thing, when we are coding in our hospitals and physicians, is it not amazing when those bills are being produced at what small percentage of that you are being paid for one-on-one consultation? I just find that so—that we are actually doing the opposite of truly impacting. And coding, for most of you, is how the docs get paid and how the hospitals get paid. You know, you can get paid more for a procedure when most the time that one-on-one time is the most valuable time that a physician can ever spend with a patient. And it is unfortunate that the way it is being paid today, that it does not incentivize our docs to actually do that. And it is very, very difficult for them, because on the average I think a primary care physician needs to see a patient in and out every 12 minutes to be somewhat balanced, if you will, on a P&L sheet at the end of the month. And we need to encourage and incentivize that one-on-one consultation.

And hopefully we can take and draw a tremendous amount from what you have given us today in your testimonies and your time that you have provided. And so many of you, the bottom line is, as America, we care. We care about the people who cannot afford, who do not have the opportunities and we care about our small businesses and we care about our docs and our hospitals. In Buncombe County, they are the largest employer and all of our small towns, I mean Jackson County, our largest employer is our hospitals. We

have to find a solution to this. It is going to be lots and lots of baby steps and this is a first step.

So I thank all of you for your time commitment and what you mean to our community. And the hearing is adjourned.

[Whereupon, at 4:00 p.m., the Subcommittee was adjourned.]

STATEMENT
of the
Honorable Heath Shuler, Chairman

House Committee on Small Business
Subcommittee on Urban and Rural Entrepreneurship
Hearing on "How Can Small Businesses Best Address the Healthcare Needs of Their Employees?"
Asheville Area Chamber of Commerce Building,
36 Montford Avenue, Asheville, North Carolina
August 30, 2007, 2:00pm

This hearing on "How Can Small Businesses Best Address the Healthcare Needs of Their Employees?" is now called to order.

The increasing cost and lack of availability of health insurance is a problem that continues to plague this nation's small businesses. Over the last seven years, entrepreneurs have seen premiums by nearly 80 percent – and that is just the average.

This is an issue that affects small firms across the country, but is particularly important here in North Carolina. Employer-sponsored insurance is the primary source of healthcare coverage for nonelderly North Carolinians. In 2000, more than 68 percent of North Carolina's 7.5 million residents under the age of 65 were covered by employer provided insurance.

However, due to these rising costs that number has steadily declined over the past few years as businesses find it more difficult to afford insurance coverage. Today, over half of all uninsured workers in the state are employed by businesses with fewer than 25 employees.

North Carolina's small businesses have consistently identified high premium costs as the primary reason many are unable to offer health coverage. It is a sentiment that is echoed throughout the nation's small business community.

It is clear that there needs to be something done to address this problem. When we talk about our economic policies in Washington, addressing the rising costs of healthcare must be at the top of the list.

One of my goals in Congress is to ensure that healthcare reform does not occur without meaningful consideration of how it impacts small business. Simply put, any reasonable strategy to expand insurance coverage must give serious thought to the challenges faced by small firms. As a member of the House Committee on Small Business and Chair to Subcommittee on Urban and Rural Entrepreneurship, I not only recognize the importance of this goal, I am committed to it.

Already this Congress, we have passed several important pieces of legislation to assist small businesses in finding healthcare, as well as improving access to care. Recently, the Committee passed the Affordable Health Care Initiative, a grant program that would allow Small Business Development Centers to assist small business owners with identifying affordable health insurance options to their employees.

Our committee also reported legislation that will help small healthcare providers serve these small business owners and their families. We passed Small Business Administration lending bill that makes low cost loans available to healthcare providers who service low-income and underserved areas. This will provide much needed financing to providers servicing many of the employees of small businesses.

But this is only a start; the Committee has held numerous hearings to identify new ideas and programs for the coverage of the uninsured and the expansion of access to care for all Americans. And as a new member of Congress, I worked with my colleagues to ensure that America's uninsured children were not forgotten when we passed legislation to reauthorize and strengthen the State Children's Health Insurance Program (SCHIP).

A number of committees will be looking at the problem of healthcare coverage in the 110th Congress; this committee's focus is to make sure that the small businesses are part of the debate. Most Americans get their insurance through their employer, so we cannot have a discussion on reducing the uninsured without small businesses. This will only help the 27 million Americans without health insurance who work at, own or have a family member working at a small business.

Today's panel offers a diverse perspective on the challenges facing our healthcare system. From small business owners to healthcare providers to insurance brokers, it is my hope we can hone in on ways to improve the current environment. It is clear to me that the small businesses of North Carolina want to do what is right for their employees, but they can only do so much when the costs of health insurance continue to rise.

I would now recognize Mr. Davis for his opening statement.

Opening Statement
Congressman David Davis
"How Can Small Businesses Best Address the Healthcare Needs of Their Employees?"

House Committee on Small Business
August 30, 2007

Good afternoon. Thank you all for being here as we examine health care choices for American small businesses, their employees, and working families.

Before we begin, I would like to sincerely thank Congressman Shuler for inviting me to come over the mountains into his beautiful district. We may come from different states, be members of different parties, and only one of us can still throw a 12 yard out pattern on a rope (you'll have to guess which one of us that is). And while the sun rises over the Blue Ridge Mountains in my home in Tennessee, and sets over them in Mr. Shuler's here in North Carolina, I know that we have at least one thing in common—the desire to help our small businesses find the reliable, high quality, and reasonably priced health care that will be there when they need it.

At the center of or examination are the issues of cost and access. As we all know, purchasing health insurance is one of small businesses' most costly expenses. According to the National Federation of Small Business, health care is the "most severe problem for small business owners"—greater than taxes, cash flow, or government regulations.

Small groups (including small businesses) usually pay more for similar or less coverage than large businesses. As a result, small businesses are less likely to offer health insurance than large firms. Not surprisingly, the principal reason given is that the small business could not afford the coverage.

One of the most stressing statistics we see each year is the rising number of Americans who live without health insurance, currently estimated at roughly 46 million people. Of those without health insurance, about 60 percent are small business owners or employees of small businesses and their families. As health care costs continue to rise, fewer employers and working families will be able to afford coverage.

Clearly, we in Congress must look at this pressing problem and find solutions that will create an environment so those that need health insurance can not only find the coverage they need, but also afford it. We need to be working toward a health care delivery system that works best, not just what we've always done. A simply look at the current health care landscape shows that the system is not working.

Over the past several years, Congress has debated numerous proposals designed to bring the cost of health care down—including the establishment of Association Health Plans, or AHPs, increasing the availability, use, and ease of Health Savings Accounts, or HSAs, and reforming the medical liability system. Unfortunately, some of these proposals, which I believed could provide significant relief for the problems we face, were never signed into law.

As we all know, there is now one solution to a problem as complicated and complex as 46 million Americans without health insurance. Small business employers and employees are in critical nee of new ways to increase health insurance coverage. I look forward to hearing from our witnesses, and to working with you, Mr. Shuler, on finding ways to make health care more affordable for small businesses and their employees.

Again, I thank you for inviting me to be here with you and your constituents, and I yield back the balance of my time.

Testimony of Mr. Jerry Johnson, Owner, The Laurel of Asheville
To the U.S. House of Representatives
Committee on Small Business
August 30, 2007

My name is Jerry Johnson I own with my partner "The Laurel of Asheville", a local monthly lifestyle magazine. I have been an owner of various small businesses for nearly 25 years. All of those businesses have had less than ten employees.

There has always been a constant need to search or shop for health insurance. That is because prices have always been going up and the amount of coverage has always been going down. My overall view is that there has been a dramatic change in the health insurance market place over the last 25 years. In the early 80's there were numerous companies offering a wide variety of coverage from major medical to hospitalization. In those early years I learned to shop for a better price every two years because rates increased. There were numerous agents available then that provided policies and educated you as to new choices and different coverages. In the past decade the choices in the once abundant health insurance marketplace have gone away. Ten years ago there were probably 40 to 50 companies offering some variety of health insurance in North Carolina. Today I believe there are less than 10 and even those choices are limited because some of these companies are really offering only indemnity policies. Which means they pay cash per incident, but are not true hospitalization or major medical coverage.

Today there are more people needing and looking for coverage. The high cost of medical care can ruin a family's future or prevent someone from truly becoming well. Yet, today far fewer agents are offering health insurance choices and fewer companies are supplying policies. As a small business person this does not make sense. When I know there are more people wanting to buy something. It usually means that more businesses will enter the marketplace to meet the demand. This is definitely not true with health insurance.

As a small business person I believe more competition is needed in the marketplace. Competition in any industry I can think of has brought about creativity and innovation. Whether that means in delivery of services, coverage, or pricing. I also believe that the government can aid in this expanding of the marketplace. One, the government can become the reinsurer of catastrophic coverage. Making it available on a sliding income scale to those insurance companies willing to innovate and offer policies to children and families that are most at risk. Companies that are also willing to help with wellness and non-traditional forms of health care. Keeping people healthy and not just paying for their sickness is what insurance companies could be doing differently. Secondly and what would save small business people a lot of time and money would be to make access easier to the types and varieties of insurance coverages. With fewer agents in the field and fewer companies it would be really helpful to aggregate these services to a website or clearinghouse. There standard terms could be used and explained. Comparison and maybe some costing could be projected based on size of groups or associations.

In conclusion, I know that we as a country can do a much better job of keeping our workforce, our families, and children healthy. We need to shakeup the insurance industry and have them start thinking of better ways to market and deliver their products and less about the stock market.

Thank you for your time Mr. Chairman.

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August 26, 2007
Remarks: Bob Kendrick
Congressman Heath Schuler
Chair Urban and Rural Entrepreneurship Sub Committee
Healthcare Issues

Let me thank you for the opportunity to speak to the impacts of the current health care environment on small business in the 11th Congressional district of North Carolina. Today I represent several constituents of small business.

As a business owner who offers consulting and hopefully growth strategies to a variety of small businesses in the region, I have many occasions to work with business owners on problems in establishing a presence and then managing growth. I currently serve on the Asheville Area Chamber of Commerce Board of Directors and represent the Small Business component as Vice Chair of Small Business and Entrepreneurship. This Chamber has for several years had a standing committee to seek a basis for suggested solutions to health care for the small business community.

I also represent one of the more successful US SBA Certified Development Corporations (CDC) who are chartered to support the growth of area small businesses with the premiere SBA 504 loan program. The Asheville Buncombe CDC has served small business since 1982 and recently this successful development corporation was recognized by SBA in Washington as one of two of the approximately 175 CDC's in the nation as a top CDC. We offer fixed asset loans across NC with a focus on the western region of the state. While health care is not a particular focus of either of these endeavors it has allowed me to recognize the limitations within our current system.

This region, as much of America, is a dynamic small business market. I would point to the two broad areas that represent small business. We have what 50 years ago was classified as mom and pop small business and today is more accurately defined as lifestyle businesses. These are smaller businesses that have been created to offer a financial return to the owners to support a lifestyle. They are not necessarily growth oriented but provide the multitude of goods and services to either a local marketplace or fill a particular niche in a broader economy. Our region, which for a number of years has been a magnet to relocation for quality of life reasons, is very active with these types of business. They are represented by independent restaurants, Bed and Breakfast operations, independent or franchised motels, food service. Interestingly with the regional medical care available in WNC these are often medical related businesses for specialty doctors, family practices and wellness programs. This lifestyle driven group is often the full range of service business in information technology, spas, entertainment and professional services.

The other category of small businesses are perceived a gazelles who are driven by a management philosophy to grow and expand from principles who may be related but are more often a group of owners who have combined talents and skill sets to focus on stronger and consistent growth. This is a much smaller segment of small business and is most often niche driven and often does not depend on local economies and patterns within these economies to support a market driven growth expectation. I perceive both of these business orientations are severely limited by our current health care dilemma.

On one hand we have medical providers who struggle to offer quality care with reasonable business returns. They seek technology driven productivity or an industrial approach to assembly line medicine to change their operational systems to cover the cost of running their business. These systems are driven by the multitude of reimbursement programs, cost containment and provider limitations. These medical practitioners deeply care about their patients. These Doctors also need respite to allow vacations, time with their families, additional medical training to stay current on best practices. We are seeing the market place react to uni-groups being formed to allow some economies of scale and offer scheduling benefits. The family doctor who made house calls is long gone due to the constraints of medical practice limitations. We see many medical related businesses move to cash only basis especially in allied fields of chiropractic or physical therapy. Reimbursement schedules that become just a few dollars above the cost of providing the care and are more often becoming adversarial relationships between the provider and insurance companies seem to be driving this transition. Dental practices may no longer offer to file insurance and expect payment at time of delivery. These are cash flow and margin driven approaches to manage a small business,

The demands and requirements of medical business owners for increasing liability insurance with spiraling costs as a factor of doing business in health care. By example, the cost of doing business when a medical professional retires or sells their practice has to include the cost of tail insurance to protect the medical practioner post practicing should a future issue arise when some medical liability could occur months or years later.

Our most excellent acute care providers and hospitals are forced to cost shift as we who manage to afford insurance are paying for services to offset the costs of the uninsured who utilize the same facilities. Currently Buncombe County has a labor force of approximately 122,000. Recent discussions in this community relate we have approximately 40,000 individuals who do not have any form of health insurance. It is expected that 22,000 of this group are employed and do not have a benefit of health insurance so our uninsured but employed population continues to grow. As an insured individual, a weekend emergency room visit to receive a few stitches for a cut cost several hundred dollars. Medical technology impacts where a Lithotripter procedure for kidney stones cost over $20,000 for a one hour procedure on an "out patient" basis.

Small businesses that are facing double digit premium increases annually are clearly focused on the employees who they value and want to retain as contributing to the businesses success. They are managing this issue by increasing deductibles, requiring employees to contribute to insurance costs, dropping family coverage and having to choose between benefits or merit pay increases. Small business that lose valuable employees due to benefit issues or recognize they cannot offer health care put a larger percentage of the population into the uninsured category.

As a business owner I recognize we cannot offer a benefit of employer paid insurance. Any single head of household that works with our business must make the same decision we do and choose an individual plan and support this cost from the income stream generated by working. We and many other businesses consistently see potential employees who have, through another family member, a health benefit and this is an individual approach to address health care costs where the significant other may only retain this employment because of a health plan.

All business is aware of competitive advantage and competition for clients or sales regardless of size or business sector. If I have a five employee business and my competitors don't offer an insurance benefit then my costs of doing business will put me at a disadvantage if I step up to the plate and offer this benefit. If all those who are potential employees have skill sets across my industry group do not expect the benefit of health insurance by employers we lower the bar on health issues. If my industry group does consistently offer health benefits then my charge is to offer a benefit that gives me a competitive advantage to attract or retain a valuable employee. Regulation or health care cost does not drive this decision. It is driven by competitive factors. The growth of health savings accounts are a reaction to health care costs. Federal changes in tax deductions for health related premium expense are a benefit yet they haven't offered sufficient benefit to make health insurance offerings competitively advantageous.

As a lender with SBA, we are also acutely aware of the continuing impacts of our dilemma with health care to the worthy individuals who are seeking to finance the multitude of needs of expanding or start up business interests. One impact is the numerous individuals who, under current lending and underwriting practices, have seen a well managed credit history severely impacted by collection efforts for family medical care expenses that cannot be paid, are sent to a collection agency and becomes a public record. The costs of financing business are predicated on a demonstrated ability to meet prior obligations and credit scoring benchmarks. Individuals who would otherwise be excellent risks are denied credit or forced to pay higher rates for business lines of credit or term loans due to medical related blemishes on past credit histories.

Regarding solutions to this dilemma, the direction we as a society need to take is with a multiple approach to address the various components.

The aging of America is currently more obvious in this region where we attract an active retiree has shown we pay on average more for health care plans than other markets in North Carolina. We have fewer providers offering products in this region limiting the competition factor and the cost of this care is more than alternative markets.

Potential health care savings would be available if primary care included better screenings for early detection of potential life threatening illness or could eliminate more expensive treatments. Wellness solutions are needed on issues driven by poor lifestyle choices or obesity. This could point to other precursors of expensive treatment regimes so often a cost issue on insurance.

Small business in North Carolina cannot form or participate in Association plans where MEWA or Multiple Employee Welfare Associations can bond to have a larger group setting and negotiate a provider for health care. Our Chambers of Commerce or the State Chamber could offer alternatives or compete with Insurance offerings. Other issues are limitations on the state level as to how many employees must participate in a business group plan. North Carolina requires 75% participation and this is often less in adjoining states.

I thank you for the time and opportunity to offer comments and contribute in some small way to defining solutions to this important issue.

Testimony of Laurey Masterton, Owner, Laurey's Catering
To the U.S. House of Representatives
Committee on Small Business
August 30, 2007

Thank you for asking me to speak about my business and health insurance. I have been living and working in Asheville, running my catering company, since 1987. I started catering out of a second floor walkup apartment, working alone, doing all the planning, shopping, cooking, serving, and cleaning up. All alone.

After 3 years I was caught (fortunately) by the Health Department and made the decision to get a real kitchen that was approved and fully legal. At that point I started to have employees too. First one and then more and more, as needed, of course. My business grew as did my overhead.

To back up a bit: when I was 25 I found out that I had uterine cancer. I did not have any insurance but needed, and had, major surgery. Fortunately I had a mentor whose partner was an Ob-Gyn, and she did not charge me for her part in my ordeal. I did, however, have a stint in the emergency room and a few days in the hospital. In New York at that time (maybe still?) there was a fund, the Hill-Burton fund, that covered people who did not have any money to pay for these sorts of things. I did not have full time employment. At that point in my life I was working as a theatrical lighting designer, and so I was covered by that fund. I did have to pay the emergency room, though and it took me a long time, paying 100.00 per month, to pay off that debt.

When I was 34 I had cancer again, ovarian this time, and fortunately had coverage. All those bills were paid, as were the necessary follow up treatments that I needed.

Realizing that health insurance is essential, I have offered it to full time staff since the very beginning of my business (as soon as I had full time staff, that is.) This has made me have much more overhead than my competitors and has always meant that I am more expensive than my competitors. This is a problem, but it is also something I am committed to doing, and hopefully my clients will understand that being a good, responsible employer means that it can translate into higher costs but that taking care of one's staff is an admirable thing to do.

Unfortunately, this understanding is not always present. I don't really feel comfortable saying, "Well yes, but they pay under the table and they don't offer any benefits and they don't have any insurance and..." that gets whiney and I try to take the higher road, trying to know that I am doing the right thing.

I do pay all my taxes. I do follow all the rules – which can often mean higher costs to me. And I still do offer all my full time employees full health insurance.

I used to pay 100%. A few years ago, however, when the costs just kept rising and rising, I had to call a stop to that. We have capped our payment per month, per employee now, and deduct the remainder from our employees checks. I really wish I didn't have to do this, but it was really getting completely out of control.

Let me give you a sense of the costs.

I have about 20 – 40 employees. About 10 of these are full time, qualifying for full health insurance. I pay about 4,000.00, around 4% of my sales, each month to Blue Cross and another, smaller amount to our dental insurer. This is a significant amount of money for me. Imagine what I could do with an extra $48,000.00 per year! Imagine what some of my competitors do. Imagine how they can afford to charge less.

As I was writing this, a some-time employee of mine came in to pick up a paycheck. He has just started a catering company in another town. He's working out of someone else's kitchen and, at this point, doesn't have any staff except for himself and his wife. He was smiling and spoke excitedly about how well he is doing. "The profit is amazing!" he said. Right, I thought, having just finished looking at my current list of accounts payable. No overhead. Lots of profit. Ah well. I run a profitable business, but it is much harder to do with the huge amount of money I pay to health insurance and the other pieces overhead that I have.

At the same time, I feel safe knowing that I have insurance and that some of my staff have it too. It makes a huge difference to them. We've had employees with injuries (not from working) and they've been covered. We've had folks who now get regular medical and dental checkups – and I know they were not able to do that before working for me. I know I'm doing the right thing.

But it is expensive.

It seems tragic that we can't find a cheaper way to take care of things. I am glad to know you are asking for opinions and experiences and I hope that you can really find a way for more people to get insurance and for people like me to be able to run a responsible, profitable, and truly competitive business. Everyone should be able to have insurance and an employer should be able to offer it without breaking the bank.

Thanks for listening.

HEALTHCARE HEARING – AUGUST 30, 2007

I am Carolyn Coward. I am an attorney and partner in the Van Winkle Law Firm with offices in Hendersonville and Asheville. We have 104 employees – 38 attorneys and 66 support staff.

The firm has reacted specifically to the rising cost of healthcare in two ways that I will address. First we have reacted by implementing a new healthcare plan. In 2005, we were consistently seeing annual double digit percentage increases in our healthcare cost. By implementing the new plan, our goal was and is to cause the participant to be a better consumer and understand the true cost of healthcare.

Option I: More traditional with a lower deductible and co-pays. We have steadily decreased the benefits of this plan and will phase it out by 2009.

Options II and II: High Deductible plans (HDHP) and Health Savings Accounts (HSA). The firm makes contributions to HSAs for employees participating and reduces or eliminates the payroll premium contribution. The plans pay $500 per person for wellness visits except for vision and dental. By shifting more risk to the employee, the plans will attract employees who tend to be healthier. The firm's risk is the sustainability of such plans.

Second we also reacted by making an effort to understand why the cost of healthcare is rising and if there are issues particular to our region. We have participated for the past four years on the Buncombe Chamber of Commerce Healthcare Roundtable which consists of employers and providers. The Roundtable has focused on issues related to the rising costs of healthcare for our region and strategies to address the underlying causes.

One factor identified by the Roundtable is the fact that our region has a high percentage of Medicare patients but because of the methodology for determining the rates Medicare will pay, our providers are paid less than providers in Greenville, SC which is less than 1 ½ hours from us. For instance, statistics from the Roundtable indicates that Mission Hospital was paid 87% of its costs for Medicare and Medicaid patients in 2006 resulting in over $42,000,000 being cost shifted to other payers. This cost differential was not due to inefficient use of resource - the total cost per Medicare enrollee for hospitalization in western North Carolina is at the 24th percentile nationally (50^{th} percentile is the average). Ultimately these costs are shifted to insurers and businesses which results in increased health insurance premiums. The Roundtable has found that employers and employees are increasingly dropping coverage resulting in a growing amount of bad debt and charity care expenses to physicians and hospitals. This cycle impacts us as an employer by causing our cost to rise in order to subsidize the under or un-insured. It is estimated that nearly 22% of Buncombe County residents between the ages of 19-64 do not have health insurance. Over half of the uninsured are employed.

The Asheville Chamber Healthcare Roundtable has been focusing on four strategies to address this issue:

1. Advocate for appropriate payment from Medicare and Medicaid

    1.1 Medicare reimbursement is based in part on the wage index of certain established regions throughout the country. Asheville is located in a region that has a lower wage index than Greenville, SC. However, Asheville must compete with Greenville for resources such as nurses and other healthcare providers. As stated above, Greenville has a higher Medicare reimbursement rate than Asheville although the cost to provide services is as much or more in Asheville than it is in Greenville.

2. Promote community-wide initiatives in the areas of prevention and cessation of smoking, increased physical activity and reduction of obesity by promoting community resources.

    2.1 The objectives are to conduct a widespread community-based health promotion publicity campaign to inform and reinforce our identity as a Health Community as defined in the Healthy People 2010 Guide published by the CDC that changes our local culture and individual behaviors; and

    2.2 Support a single point of entry for information and access to existing resources, making health promotion available to all residents of Buncombe County.

3. Encourage the development of alternative insurance products for small business

    3.1 Roundtable is presently reviewing whether employers in the area would be interested in developing a model established in Missouri where laws were amended to allow small and large employers to combine thus creating a large risk pool in order to offer a fully insured health insurance product to all groups at a uniform price.

4. Advocate for Medical Liability reform

    4.1 Defensive medicine, over-utilization of technology, continues to cause the healthcare cost to rise.

In closing, as an employer, a member of the Roundtable and a citizen of WNC, I ask for active support from our federal legislators. These issues are hindering economic development and the achievement of improved health status of our community.

Miriam Schwarz, CEO of Buncombe County Medical Society
August 30, 2007
Opening statement at Health Care Panel (Congressman Heath Shuler and Congressman David Davis)

Mr. Chairman and Mr. Davis: I am going to address the issue of health insurance for small businesses from two unique perspectives that the Buncombe County Medical Society (BCMS) brings to the table:

1. Physician practices as small businesses
2. BCMS physicians as providers of care to the working uninsured

1. Physician practices as small businesses:

There are approximately 500 physician practices in the 16 county region of WNC. Most of them are small businesses (<50 employees). Like all small businesses, these physician practices have a hard time affording insurance because they have so few people to spread the risk. One sick employee and the small business's premiums go through the roof. Thus, small businesses-- including physician practices-- pay higher premiums per person than do large corporations.

It is a fact that many small businesses must pay lower wages and offer reduced benefits in order to survive. According to an annual survey by the National Federation of Independent Business (NFIB), small business owners in NC ranked the cost and availability of health insurance as the biggest problem facing them nine of the last 10 years (2004 The Rural Economic Dev elopement Center).)

Most of our doctors' offices have reached a point where they can no longer afford to pay the entire premium for their own staff's health insurance, so they are increasingly asking employees to accept higher deductibles and pay a higher share of premiums, and they are dropping family members from the plans. Here are a few of their stories:

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Regional Allergy & Asthma Consultants

"Two years ago we reached a point where could no longer afford to pay the entire premium for our staff health insurance. This was particularly difficult because over half of our staff has been with us more than 10 years, so they were accustomed to the practice paying 100% of the premium. We asked them to begin contributing 25% of their premium. When our renewal came up for August 1, 2007, we only offered a $1500 deductible to try to offset the 10% increase in premium. In the past we have offered $750 and $1500 deductible options. The cost of health insurance for our fiscal year end 5/31/07 was $110,500 (this doesn't include the $20,000 paid by the staff). We carry 21 employees on our policy. That means we pay $5,200 annually per employee for our 21 employees."

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Mountain Kidney & Hypertension Associates, P.A. and Carolina Renal Care
"From the employer point of view we are (like everyone else) stuck with reviewing options and deciding whether to renew current coverage, reduce current coverage or seek coverage with a different insurer. This is time consuming and expensive - just to get the information - then comes decision time. At present, it is a trade off between increasing deductibles and requiring employees to pay more of their premiums. Insurance coverage - health, business-owners and malpractice - is the single largest expense we face each year."

Asheville Eye Associates

"As a business, I can tell you that my practice has switched in part to Health Savings Accounts with high deductible insurance, shifting more of the health care costs to the employees."

In addition to dealing with their own employees' health care plans, physician practices must also deal with the ever changing landscape of health care coverage for their patients as small businesses shift to less expensive coverage and deductibles. The impact of the shifting sands is summarized very well by this one practice:

"It is very likely that during the next few months we will have to add a staff position to do nothing but handle precertifications and authorizations for managed care entities, not to mention the Medicare Advantage plans. It is not unusual for a Medical Assistant to spend an hour or more on the phone trying to obtain information/precertification for a procedure or referral. Not only is she using valuable time to accomplish this chore, then she must use additional time (often overtime) to complete other tasks such as scheduling or returning patient phone calls. It is also difficult to keep up with the ever changing coverage as employers shift to different, less expensive coverage and employees are not usually up to date on their current coverage. This requires additional time on the part of front desk personnel to acquire new info, then on the part of billing staff to verify coverage and make changes in the computer. Collecting balances then becomes more difficult because patients are now having to meet higher deductibles than in previous years.

It is a constant challenge to keep this ever changing landscape in view - and has a ripple effect that touches just about everyone in the practice."

2. BCMS physicians as providers of care to the working uninsured

Paloma's story. Paloma was diagnosed with adult-onset asthma, with severe breathing difficulties requiring unaffordable medications and doctor visits. Her part time work did not provide her with health insurance. Project Access came to her rescue, as it has with so many other thousands of patients in Buncombe County. After receiving proper treatment, her breathing improved and Paloma was able to get a full time job that provided her with

health insurance. She says of her doctors: They saved my life. Where would she be without the BCMS physicians who so willingly give free care to the working uninsured?

Eleven years ago, Buncombe County physicians came together to organize the charity care they provided, making it more efficient, more comprehensive, and more accessible to patients. PA is an integrated health care system providing universal, on demand access with the full continuum of health care, including medications, primary care specialty care, labs, and other services for its low-income uninsured patients.

PA is a strategic partnership between government, non-profit and for profit organizations, primarily funded by an annual allocation of $470K of county tax dollars, the majority of which goes to pay for medication for the patients that the doctors are seeing for free. In the past year alone, BCMS doctors have donated over $10 million dollars in free care, serving 3300 patients. In the past 11 years, 18,000 patients have been served with a total value of services at 72.8 million dollars.

Forty six percent of current PA patients have no insurance but work full time, part time, or are self-employed. Over 85% of Buncombe County's private practice physicians and their employees--and remember, these practices are **small businesses themselves struggling to insure their own employees**—give away free care.

PA is a great program being replicated all over the country, but I'm here to tell you that the physicians are growing weary. The physicians of Buncombe County are giving away free care to the working uninsured, but in spite of their generosity, they are being assaulted by a host of factors that are wearing them down or out of business. Their own health insurance premiums are up, physician reimbursement for services is down, Medicare and Medicaid are currently not covering the true cost of care, medical liability insurance premiums are skyrocketing particularly for "high risk" specialties such as OBs and surgeons, the health care system practices defensive medicine for fear of litigation, and healthcare coverage for patients is becoming scarce because employers can no longer afford to provide coverage for their employees, let alone their families.

Here's what one BCMS physician had to say about the matter:

"Eleven years ago when PA was started, MDs were being paid 90-95% of what they billed in the local area. That number now is around 45-50% of what they bill. Most local MD practices have seen their reimbursement rates and thus their business' income per physician fall 45-50% in the last 10 years. This pattern of MDs donating their care to the local businesses to take care of other people's employees while we struggle to afford to take care of our own employees is not sustainable. This is why we are seeing PA interest waning – it is not because doctors don't provide free care or aren't interested in being charitable (we all do). It's just we simply can't afford to continue to do so under the current system, especially in a state with very strict CON laws that significantly restrict ancillary income sources for physicians. I would compare us to local restaurants. I would make a similar comparison that the solution to the hunger problem in the US is not

to have all the small restaurants give away free food all the time – occasionally is fine but all the time and you end up losing your business then you can't help anyone."

Project Access is not a cure all for the uninsured. PA is **NOT** the answer to the incredibly complex problem of national health care reform. It is only a stop gap measure, an example of a community of physicians trying to address a problem in the absence of policy reform at the state and national levels. Project Access is "Ethical and Philanthropic Doctors Working for Free," and there is only a certain amount of free care that doctors can afford to give away. Relying on charity care is **not** the solution.

Conclusion:
BCMS doesn't have an official position statement on what the solution to our healthcare access crisis should be, but as you can see, the doctors of BCMS and WNC put more value in action, than position statements. BCMS hopes that Congress will soon begin putting action before position statements.

Thank you.

Mark Leonard
CEO
WestCare

Thank you Mr. Chairman and Mr. Davis for allowing me to present the hospital perspective of providing care to our uninsured patients. The increasing large numbers of Americans and North Carolinians without health insurance is a growing problem, and I applaud your efforts in bringing us together to discuss it. Let me briefly describe our health system and the impact of a growing uninsured population.

WestCare Health System consists of Harris Regional Hospital in Sylva, Swain County Hospital in Bryson City, Mountain Trace Nursing Center in Webster, WestCare Medical Parks of Franklin, Sylva and Bryson City along with a variety of ancillary programs and services. WestCare employs over 1,020 staff members. Each year we will see over 6,000 hospital admissions and another

95,000 outpatient encounters. Our medical staff performs almost 6,500 surgeries each year and deliver over 750 babies each year. We see over 27,000 patients in our two emergency departments annually.

Our primary service area consists of Jackson, Macon, Swain and Graham Counties. Almost 90,000 citizens live in this service area. Approximately 18% of western North Carolina's population is 65 or older as compared to the State average of 11.7% and the national average of 12.1%. Additionally, our region experiences greater incidence of poverty than the State average.

Being uninsured can create grave negative health consequences. Uninsured patients will often put off seeking care until a condition is serious and includes multiple complications. These patients will seek care

Mark Leonard
CEO
WestCare

through our emergency departments as well as ERs throughout the country. Uninsured patients make up over 24% of all patients treated in the emergency departments at WestCare Health System. An Emergency Room is the most costly setting to provide care. Unfortunately, the emergency room often times becomes the family physician for people without health insurance.

I am embarrassed to tell you that the Institute of Medicine estimates that approximately 18,000 people die each year nationally from diseases and conditions that are treatable and preventable simply because they do not have health insurance.

At WestCare, we like many other hospitals, define uncompensated care as consisting of shortfalls from the

Medicare program, the Medicaid program, and from the uninsured.

At WestCare, the total annual cost of the uncompensated care we provide exceeds $8,200,000. Five million dollars of that amount is the cost of care provided to our uninsured patients. And at WestCare, we have seen this trend line accelerate at an alarming rate. In 2003, we provided $2,500,000 in cost of care to the uninsured. Remember, we project that amount to double to over $5,000,000 this year.

And at WestCare, over 25% of our uninsured patients are employed. That is to say, $1,250,000 in cost of care is provided to patients who are employed but for which we receive little or no reimbursement. And, of course, when the uninsured do receive care, their care is paid by

Mark Leonard
CEO
WestCare

others. We like other health systems make the difficult decision to pass along the costs of their care to privately-insured patients. This reality is necessary in order to come close to recovering our daily operating costs. This creates a vicious cycle. As the uninsured increase or when Medicare or Medicaid cut reimbursement rates, we are forced to shift our costs and ask the privately insured patients to pay more. This puts a greater burden on employers, who often decide they can no longer provide health insurance. In turn, more people are uninsured and the problem only gets worse. To continue to breakeven, WestCare and other hospitals must shift these losses to the privately insured which will only result in more uninsured.

Mark Leonard
CEO
WestCare

Yesterday, the Census Bureau announced that the number of people without health insurance coverage rose from 44.8 million in 2005 to 47 million in 2006. The Census Bureau looks at the total population. However, just about everyone over 65 is insured through the Medicare program. By including the over-65 population, the Census Bureau's figures are somewhat misleading and understate the problem. If you look at just the 18-64 age group, the uninsured rate for the US is 20.3%, the rate for North Carolina is 19.5% and the rate for western North Carolina is 20.1%.

Mr. Chairman, Mr. Davis, thank you again for your leadership in highlighting this significant issue.

Testimony of Dr. Alan Baumgarten
To the U.S. House of Representatives
Committee on Small Business
August 30, 2007

I am grateful to the Honorable Representatives Heath Shuler and David Davis for inviting me to present at this meeting.

My name is Doctor Alan Baumgarten. I am a Family Physician in private practice for more than twenty years with the Asheville Family Health Centers. I wear a few additional hats in that I am Vice Chief of Staff at Mission Hospital representing more than 650 physicians and 300 allied health professionals on medical staff in the system. I am also the physician representative from the Buncombe County Medical Society on the Asheville-Buncombe Business Health Care Roundtable. I believe that from each of these positions I have an important and unique view on the issues related to the problems of the uninsured small business employee.

I will be addressing issues of the uninsured small business employee from the perspective of :

1. The doctor – patient relationship,
2. Physicians in private practice and
3. The Business Healthcare Roundtable

The opening line from a very recent New York Times editorial reads something like this: **"Many Americans are under the <u>delusion</u> that we "have the best health care system in the world".** It is fast time that we stop deluding ourselves and face the facts; our American health care system is not the best in the world and it is nearing a crisis. A recent study conducted by the Commonwealth Fund comparing the United States and other advanced nations found that we were at the bottom of most measures when compared to Austria, Canada, Germany, New Zealand and the United Kingdom. In the area of quality, The Commonwealth Fund gave the United States (US) high marks for providing "the right care" for a given condition and especially high marks for preventive care services for Americans with insurance. However, the US scored poorly for management of chronic disease and patient safety driving our overall quality measure to the bottom of the list. Though the US got high marks for breast and cervical cancer survival, we were again at the bottom of the list for management of transplants, circulatory diseases and respiratory diseases. We are at the bottom of the list for infant mortality, life expectancy and mortality for a wide range of major illnesses that would not be fatal if treated in a timely manner. We have done better than most in curbing smoking though obesity is at epidemic proportions.

Health care is also facing a major financial crisis. The US is spending more than 16% of our GNP on health care and this figure is rising. In US, we spend more than twice per person than any other county in our comparison group and in spite of this huge expense, more than 45 million Americans are without health insurance coverage. US Census Bureau information indicates that more than half of the uninsured are working Americans in an employment-based coverage system and working Americans make up the fastest growing segment of the uninsured.

We must face the facts, we spend more on each American for health care and we are anything but the "best in the world". Where is the value in our health care system? Is this really a **system** or just a rag

tag approach, pasted together after World War II? Are we currently doing anything that truly addresses these system failures? The current system is not sustainable.

You have asked me to address health issues of the uninsured small business employee and I will certainly do that. But that discussion must take place in the context of a much broader crisis facing our Nation's health care "system".

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In my Practice, some of the greatest health care disasters are occurring for uninsured working Americans, citizens working in our communities small businesses. The following are a few cases examples of the personal crisis's that we face everyday in family practice:

Pam is a Nursing Assistant employed for the last ten years with a family practice group located in Asheville. Her employer is a small business that is facing rising overhead and steeply rising health insurance premiums. Overhead for family practice is already amongst the highest for all specialties in medicine with some of the lowest profit margins and the rising cost of employee health care is adding to the problems of managing their small businesses. In Pam's case, her employer has been trying to keep down the cost of their health care premiums and each year they have been making changes in there plan; reducing benefits, increasing deductibles and asking their employees to covering a growing share of the premium costs. This year Pam's employer said they would no longer be covering the premium costs of family members. The benefit would be available to Pam but the premium expense would be taken from her salary and Pam concluded that she could not afford this extra expense given the tightness of her budget. As a result; Pam has dropped her health insurance coverage for her 8 and 10 year old children. She earns too much for Medicaid and her children are currently without insurance coverage.

Susan is a patient in my practice. She is fifty –six years old, has a history of breast cancer now ten years in remission and works at a local child day care center. This is not a high paying job and her employer is a small business that actually does provide a health insurance benefit. Her plan has a $5000 deductible for catastrophic and acute problems and no preventive coverage. In spite of this, Susan comes each year for her annul health maintenance examinations including pap smears, blood profiles, chest x-ray and mammogram. Susan has a nagging fear of a cancer recurrence so she tries to keep up her surveillance and pays for all of these services "out of pocket". Susan recently came to see me with a new problem, headache with dizziness. She was concerned that her cancer was back and had spread to her brain, a common route for breast cancer metastasis. I examined Susan and found no focal neurological signs and tried to re-assure Susan that I did not think her headaches were caused by a return of her cancer. I suggested a few simple measures/remedies related to her allergies. Susan returned two weeks later with continuing dizziness and nagging headaches. I tried to keep Susan focused that this was most likely a benign process though down the list in my differential diagnosis was a metastasic brain lesion. I knew that Susan was going to need a CT scan of the brain to eliminate this as a cause of her problem and for Susan, this was going to be a big expense. However, I also knew that Susan had some arthritis in her spine and sometimes her headaches radiated to her neck. I stepped up her arthritis management and reviewed with Susan a series a neck exercises that she was to do twice daily hoping that this would solve her problem. Susan came back the following month distraught, her neck felt better but she was still having problems with dizziness and recurrent headaches. She wanted the CT scan at any cost because she could not shake the fear that a recurrence

of breast cancer was causing her headaches. Her fear was affecting her work and her home life. Her CT scan was normal at an "out of pocket" cost of $1200.

Don is a fifty-nine year old male who was working as a repair technician for a major office equipment company when he was diagnosed with a rare abdominal sarcoma. His employer was a large multiu-national corporation and provided good health care benefits that helped Don with most of his medical expenses during this ordeal. However, the time from diagnosis to surgery, chemotherapy and recovery was many months and Don was unable to work during this entire period. When Don was ready to return to work, his employer no longer had a position for him. Don knew he was able bodied and skilled so he started his own office equipment repair service and stayed on a COBRA health plan as long as he could. When his COBRA expired, Don went out into the open insurance market and could find no carrier who would provide insurance coverage; his cancer risk was too high. Don continued to work and did well for at least another year when his abdominal pain returned and the CT scan confirmed his worst fear, that of a cancer recurrence. After another surgery and more chemotherapy, Don cannot work and he is unable to get health insurance through his wife's plan. Don and his wife are broke; they have huge medical debts and are about to lose their home.

Carmen is my saddest case of all. She is a twenty-two year old female who since she was nineteen has worked as an office receptionist in a small business without health insurance. After high school, Carmen spent a full year in Charlotte caring for her father as he died from liver cancer. At twenty, Carmen was pregnant and engaged to be married when two days before Christmas her fiancé was killed by a drunk driver. The following February, Carmen gave birth to a healthy baby boy who died on month later of SIDS. How much tragedy can one women stand? However, Carmen did remarkably well. Though for a while she was too distraught to work, she qualified for Medicaid benefits and received some very supportive counseling. After approximately one year she felt well enough to re-enter the work force. She was an excellent employee so her previous employer actually gave her another job, clerical office work without health benefits. Carmen did just fine for about six months when she came to see me for her routine annual preventive care that typically includes a pap smear and brief physical examination that Carmen pays for as an "out of pocket" expense. But this time, Carmen's examination was not normal; I found a lump on her thyroid gland that after biopsy was confirmed to be a thyroid cancer requiring I-131 radiation treatment. Carmen had two choices, quit her much needed job and again go on Medicaid or find some other means of getting her treatments. After much discussion with Carmen and her therapist, all agreed that it was best for Carmen to keep her job. As a result, I spent many hours of uncompensated time cobbling together a plan that included getting a pharmaceutical company provide the I-131 as charity, getting the hospital to provide Carmen's four day stay as charity benefit and a specialty physician to administer the I-131 as charity care. Today, Carmen is doing well.

These are four real world cases that demonstrate how our employer-based health care system is failing us. This is the patient side of the dilemma; the dilemmas facing employees of small businesses who are unable or cannot afford health insurance. However, the lack of adequate health insurance coverage for employees of small businesses also results in other huge consequences for society and our health care system:

1. Having no preventive health care benefits means that most illnesses are diagnosed later in their natural history and will typically result in higher medical management costs;
2. Acute care is often delayed until a simple problem becomes more serious and results in more complicated care, hospitalization and increased costs and

3. Lack of insurance is often associated with lack of access to Primary Care services. This leads to patients who obtain their routine primary medical care in inappropriate facilities, namely the local Emergency Room resulting in increased cost for routine.

For more severe, complicated and catastrophic illnesses, the uninsured patient often will end up receiving charity care from the hospital and the physicians caring for them. Western North Carolina has higher rates of uninsured (22%) when compared to all of North Carolina (17%) and the Nation (15.7%) as a whole. Adding to our Community's burden of charity care is a higher than average percentage of Medicare and Medicaid patients. For both hospitals and physicians, typical Medicare and Medicaid reimbursements are below cost. In 2005, 65% of Mission Hospital's revenue came from Medicare, Medicaid and self-pay. This resulted in losses from Medicare of $39 million, Medicaid $13 million and self-pay/charity of $20 million totaling $72 million. To offset these losses, our local hospital and physicians have been "cost shifting"; using the better reimbursements from the private health insurance plans to offset the losses from charity and the below cost reimbursements provided by Medicare and Medicaid. As you can imagine, cost shifting cannot go on forever. As the size of the private health insured population is decreasing, cost cutting options are getting slimmer and re-imbursements from the private health insurance companies are also shrinking. Cost shifting is fraught with another set of problems. It tends to cause the private health insurance plans to raise the rates they charge to our local businesses which raises the cost of doing business in our community. It is a vicious cycle.

To address these concerns, leaders from Asheville, Buncombe County and Western North Carolina have formed the Business Healthcare Roundtable, a group of community leaders representing healthcare (hospital and physicians), business and civic interests. The Roundtable has come together "to find and implement a solution that reduces the ever-increasing cost of healthcare and health insurance so that all residents will have access to affordable medical treatment and health insurance coverage while at the same time continuing to assure that high quality healthcare services are available to all citizens of Western North Carolina". The focus of the Roundtable is on four areas: 1) Encourage development of affordable insurance products for small businesses, 2) Advocate for appropriate payment from government payers to end cost shifting, 3) Emphasize community health promotion, prevention and wellness and 4) Advocate for medical liability reform.

Has this group solved our Community's heath care crisis? No, but at least we are working together to study the problem, to look for local solutions and ways to more effectively lobby for change. The Roundtable committees are actively researching and educating Roundtable members in these key areas of health care crisis and we are on our way to implementing a local health promotion initiative with the hopes for getting Asheville designated as a "Healthy Community". However, solving our communities' larger crises of health insurance for small businesses remains elusive. As we continue to work on local solutions for the uninsured and community health promotion, we are continuing to lobby our local representatives for legislation that improves reimbursements from government payers and medical liability reforms.

We need some help.
Our health care system is in crisis and it is not just a crisis for the uninsured employee of small businesses. Yes, there are options on the table for this population:

1. There are proposals in the North Carolina legislature to allow for large risk pooling of small businesses to lower their rates. But will this be enough incentive for these small businesses to

offer health plans to their employees and will employees feel as though they are able to afford these plans?
2. States and local governments are looking at new and creative funding sources for small business health plans. Will the small businesses and their employees be required to participate?
3. Will Medicare and Medicaid continue to cut rates so that hospitals and physicians are reimbursed at below cost rates?

The American health care system needs your help, it is not sustainable.
We need leadership from Washington on these issues so that all citizens have at least a basic level of health care coverage.
We need our leaders to step up and address the health care crisis on a National level where there needs to be incentives and requirements to provide health insurance for all Americans.
We need our leaders to consider national health plans that provide clear incentives for healthy lifestyles, wellness care and preventive services.
We need health insurance plans that encourage integration of services to reduce duplication and improve efficiency.
We need health insurance plans that measures, encourages and reward quality.
We need health insurance plans that provide coverage for Mental Health services.
We need health insurance plans that provide reimbursements that meet the cost of care for hospitals and physicians.
We need health insurance plans that reduce bureaucracy, administrative costs and middleman profits.
We need our leaders to help us to achieve health insurance that fully, fairly and efficiently covers all Americans.
We should settle for nothing less.

Thank you.
Alan S. Baumgarten MD, MPH

"How Can Small Businesses Best Address the Healthcare Needs of Their Employees?"

Hearing for the House Committee on Small Business
Subcommittee on Urban & Rural Entrepreneurship
Addressed to Congressman Shuler, Chairman & Congressman Davis

Presented by George M. Groome, President of Colton Groome & Company
Asheville, NC
2:00 P.M., Thursday, August 30, 2007 at the Asheville Area Chamber of Commerce Building

Submitted August 28, 2007. Revised August 29, 2007.

Good afternoon and thank you Chairman Shuler and Congressman Davis for your efforts on our behalf in Washington.

I am George Groome, President and CEO of Colton Groome & Company; a 56 year old financial and benefit consulting company headquartered here in Asheville. I have been with the firm for 33 years.

In the benefits arena we work with approximately 120 businesses covering over 10,000 participants in some form of employer sponsored benefit programs.

An area of concentration for our business is employer sponsored medical insurance plans. As you can imagine in WNC, our main focus is small employer plans with 10 – 250 employees...which is the the backbone of our region's economy.

We do handle a few plans with over 1,000 employees as well.

The health insurance crisis in our country is eclipsed only by the current credit and mortgage dilemma and the Iraq War.

According to our local Chamber's survey, health care and affordable health insurance is the number one concern of our membership of over 2000...primarily small businesses.

According to the Community Health Assessment of 2005, there are 40,000 residents in Buncombe County with NO health insurance and 50% of these folks are working.

Medical insurance is rapidly becoming unaffordable especially for small employers and the employees.

At Colton Groome & Company, as a typical example, we provide medical coverage for 13 employees. Five employees have elected some form of dependent coverage.

Together, we spend approximately $85,000 annually. The cost to insure a typical family is over $1,200 per month...an amount exceeding many families' housing costs.

As a 56 year old employee benefit firm negotiating group medical insurance contracts on behalf of small businesses, our experience is that more folks are going uninsured because employers are canceling plans or the employees cannot afford their share of the monthly premium.

Let us not fool ourselves, *"we"*

Let me stop & define *"we"*:

1. Government
2. Providers – Hospitals, Doctors, Health Care Agencies
3. Employers
4. Full time insured employees

WE are paying for the uninsured to receive medical services.

WE are paying in one of the most inefficient ways possible – transfer payments, cost shifting and taxes.

We have one of the best and most sophisticated medical delivery systems in the world with the greatest providers. What is NOT broken is the delivery system. What needs attention is financing of and increased access to the system.

The answer does not lie in national health care or a government administered payment system. It lies in a financing plan for insured quality services provided by employers most of which in WNC are small businesses.

The best way for small businesses to address the health care needs of their employees is through quality and competitively priced, privately financed insurance...commonly known as the free enterprise system.

If you are hesitant to dismiss national health care, just look at what has happened in Great Britain. Access in unacceptable, care is rationed and the providers have been relegated to underpaid, unmotivated human body mechanics.

Our country is founded on the free enterprise system and continues to thrive because of this economic grounding. The health care system is not perfect at the insurance carrier level, the provider level or the legal system level. Each area needs has its flaws which must be addressed.

However, the free enterprise system, even with its flaws, with appropriate financing improvements through government incentives holds incredible promise as part of the fix.

Before you dismiss this as a possibility, consider the following.

Effective, efficient health care services and delivery systems are best designed and implemented regionally and more specifically in the communities where the services will be delivered. Employers, especially small employers can serve as organizers and fiduciaries of the health care responsibility for the folks they see and interact with each day if medical insurance is required for all employees and subsidized through incentives and competitive pricing.

Washington, DC cannot deliver the best medical services in the best way in Asheville, NC; Topeka, Kansas and Duluth, Minnesota in the customized way different communities need to structure services.

If you are skeptical about my premise of the federal government's inability to finance and deliver services, just remember the lack of delivery with hurricane Katrina, and the financing crisis we face with Social Security, Medicare and Medicaid.

Our health care is too critical and too personal to be managed through the bureaucratic lowest common denominator mentality.

So how can the free enterprise system evolve as a catalyst to assist small business (and indeed all businesses) in delivering quality medical care to its employees?

I have four thoughts on how to mobilize the free enterprises system in this endeavor.

1. My first premise is we can insure more folks the quickest with quality benefits through employers.

   We need to evaluate requiring employers to provide coverage for all employees working 20 hours a week after 30 days of employment.

   Simple incentives and subsidies can be designed to make employers whole. Remember we are already paying for this medical care through an inferior and inefficient system called No Care, Medicare, Medicaid, the emergency room and uncollectible accounts of our providers…in short transfer payments and cost shifting.

   Typical group medical insurance contracts do not provide coverage until 30 hours a week of employment. Larger employers especially use part time status as a cost reduction technique to avoid insuring a large portion of their work force. Small employer plans must pay for these uninsureds through transfer payments in the form of higher insurance premiums.

It is irrelevant if we have to pay $8.99 or $9.99 for a CD at Wal-Mart. It is relevant that our citizens and certified workers *capable* and *willing* to work 20 hours a week are insured and receive medical services. Such an approach should relieve the pressure on our social systems and result in savings to at least partially finance a more effective system.

2. Secondly, with more folks covered for medical services, I believe there will be better and more appropriate access to the health care system and therefore better outcomes. Better outcomes ultimately reduce costs.

3. Thirdly, with a significantly larger insured population we can create more competitive insurance premiums which will help small business the most. Small businesses have little to no leverage with carriers and few alternatives.

   Where there is a deemed lack of competition in the medical insurance market (as in WNC), government can provided incentives to insurance carriers that are willing to participate and help drive down costs though covering a larger population and subsidizing rates. Remember, *"we"* are already subsidizing rates through transfer payments and cost shifting.

4. Access to quality services needs to be incented through the provider community.

   Where we have access issues, using primary care physicians as an example, the government can provide incentives to increase participation and access in that sector of medical care. We must provide access to care. Qualified primary care physicians with appropriate incentives as an example, is a superior alternative to the emergency room, uninsured transfer payments "we" are already subsidizing or national health care.

   With better access to the provider community, there can be more focus on wellness and prevention. We currently spend only 3% of our medical dollars on wellness and prevention. Additional attention and access to wellness and prevention has the potential to pay significant dividends.

In summary, government incentives and subsidies are superior to government intervention in insuring, financing and controlling the costs of quality medical services. I believe Government can effectively direct funding to impact the health care crisis through incentives to employers, providers and insurance companies

We can retain the greatness of our health care system while making sure access and payment for services are delivered efficiently through employer sponsored plans where the lives and needs of families are experienced daily, up close and personal. This is especially true of small business.

Considering the alternatives, my hope is these thoughts will merit further consideration.

Thank you for your interest to make sure all Americans have access to affordable and quality medical care.

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